

## **CITY COUNCIL AGENDA ITEM**

### **CITY OF SHORELINE, WASHINGTON**

**AGENDA TITLE:** Gambling Tax  
**DEPARTMENT:** City Manager's Office  
**PRESENTED BY:** Robert L. Olander, City Manager

#### **PROBLEM/ISSUE STATEMENT:**

Several casinos in Shoreline are requesting that the City of Shoreline consider lowering the City's 10% card room gambling tax. The casinos are experiencing declining revenues due to a number of statewide and local factors.

#### **BACKGROUND:**

In terms of considering this issue staff believes it is important to consider the industry as a whole in Shoreline and not to concentrate or provide preference to any particular casino. Individual business practices and investments will vary between casinos and to a certain extent customers may shift between gambling establishments. It is also important for the City to consider this at the level of gross revenues as opposed to individual casino profit and loss statements. The profit and loss is highly dependent on individual business decisions such as capital investments, depreciation schedules, officer draws and salaries, promotional budgets, etc. The total annual gross revenues for the five Shoreline casinos are as follows:

<u>Year</u>	<u>Gross Receipts</u>	<u>Tax Rate</u>	<u>City Revenue</u>
2001	\$16,859,584	11%	\$2,019,159
2002	\$18,219,538	11%	\$2,337,808
2003	\$20,276,031	11%	\$2,501,812
2004	\$26,413,373	11%	\$2,991,084
2005	\$26,337,937	10%*	\$2,712,877

\* The City reduced the tax rate by 9% (from 11% to 10%) effective April 1, 2005, resulting in a savings to the casinos of approximately \$195,000 for 2005.

First quarter 2006 gross revenue for all the casinos were \$5,596,446 compared to \$6,587,011 for the first quarter in 2005, which is a reduction of approximately 15%. Preliminary figures for the second quarter indicate an even larger decline. Attachment A provides information on casino gross revenues for the past several years.

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:

- Tribal Casinos – Tribal casinos continue to expand and upgrade facilities throughout the state. They are increasingly up-scale with restaurants, entertainment and expansive gaming options including very popular slot machines which are not allowed in non-tribal casinos. This provides increased competition for non-tribal casinos.
- Smoking Ban – A statewide smoking ban for public facilities went into effect in November of 2005. Casino patrons are no longer able to smoke while gambling. However, the ban did not apply to tribal casinos and this has markedly affected non-tribal casinos in Washington. Anecdotal information from State Gambling Commission personnel indicates that they are seeing an average 15% drop in non-tribal casino revenue due to the ban. Industry efforts to exempt non-tribal casinos from this ban were not effective in the last legislative session
- Regional Non-Tribal Competition  
Another factor mentioned by local casinos is the construction of newer non-tribal casinos in the area such as the one north in Mountlake Terrace and one in Kirkland. Despite the problems facing the industry newer upscale casinos continue to open, while some others are going out of business. These newer casinos provide increased competition locally for the gambling dollar.
- On-Line Illegal Betting  
On-line illegal betting is another growing source of competition for all casinos. Apparently, this is a rapidly expanding area of gambling and is extremely difficult for the State or federal government to control.
- Construction Impacts  
A final factor mentioned by local casinos is the construction delays along Aurora. Although not all casinos are in the construction zone, delays and less traffic on Aurora in general contributes to a loss of patronage.

## DISCUSSION

The basic financial and policy question is should the City of Shoreline assist the local casinos, and if so, how?

Casino taxes to the City are budgeted at \$2,650,000 in 2006. However, this estimate will need to be lowered if second quarter returns continue to decrease. Second quarter tax returns are not due to the City until July 30<sup>th</sup>, although several casinos have provided the City with preliminary gross receipt amounts for the second quarter. If 2006 card room gross receipts average 15% below 2005 levels, the City should anticipate approximately \$450,000 less in revenue compared to the 2006 budget, before any tax rate adjustment is considered. Any tax revenue above a 7% tax rate is allocated to capital projects, while 7% goes toward City operational expenses/law enforcement. The gambling tax has been an important revenue source for the City, and if one or more local casinos go out of business it will impact revenues and local jobs (to the extent that the other casinos do not pick up the lost business).

However, in the view of staff, the non-tribal industry throughout the State is facing serious structural competition well beyond the control of the City. These statewide and

even national challenges may inevitably lead to a shake out and shrinkage of the non-tribal casinos. 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. Despite these larger forces, 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, which is a very large market draw area. Second, Shoreline has established that no new casinos are allowed, but that existing ones may continue as non-conforming uses which 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. (A non-conforming use can cease operation for up to a year before losing its non-conforming status).

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 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. 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 undoubtedly contributes to lower customer volume. It has been our general policy to help Aurora businesses during construction through access management, traffic control and more recently promotion and advertising. Therefore, staff can comfortably recommend a temporary 10% reduction in the gambling tax (from 10% to 9%) to off set construction impacts. Staff recommends that it become effective August 1, 2006 and expire March, 2007. (A tax reduction cannot legally be made retroactive). Although this phase of Aurora is scheduled to be substantially complete by the end of December, we should provide some time for businesses to build back up their customer base.

A possible objection to a temporary reduction is that it singles out one business segment for favorable treatment. The answer is that we really have no other significant optional taxes we could reduce for other business segments along Aurora. The property tax is required by the State constitution to be uniform for all properties. The sales tax is collected from the customer to be passed along to the State. Shoreline has few direct utility taxes since most are general franchise fees or contractual payments. Another response is that no other segment is taxed at such a high rate. A third response is that the City is expending \$50,000 to promote general retail shopping and services in Shoreline along Aurora as construction mitigation.

#### **ALTERNATIVE CONSIDERED**

Implicit in the above discussion is an alternative to permanently lower the gambling tax rate. For all the reasons discussed, this is not recommended. Any significant reduction will not guarantee that the Shoreline casinos will be able to continue to operate. The structural market forces at work will be the deciding factors. As long as our local tax rates are average for the region it is appropriate for the private market to reach its own

level. Also, any significant reduction will reduce City revenues with no guarantees that all the casinos will be able to stay in business

### **FINANCIAL IMPACTS**

There are both long-term and short-term financial impacts to consider. In the long-term we can expect a marked decrease in gambling tax revenues due to the competitive environment and lower gross revenues. Depending on second quarter returns we will need to revise our mid year revenue estimates in this category. However, there are some off setting increases in Real Estate Excise Tax (REET) to help a reduction of gambling tax allocation to capital and there are some remaining one-time savings from 2005 to help off-set a reduction to operational revenue. In the short-term the financial impact from the recommended 10% reduction is anticipated to reduce 2006 revenue by an additional \$126,000 and 2007 revenue by approximately \$61,500. These reductions would occur within the City's roads capital fund since it is a result of reducing the tax rate from 10% to 9%. As was mentioned earlier, it is likely that there will be additional REET collected that could offset this temporary loss of revenue.

As more information is received on actual gross receipts for the card rooms for the second quarter of 2006, staff may recommend a mid-year 2006 budget adjustment, separate from this gambling tax rate reduction recommendation.

### **RECOMMENDATION**

It is recommended that the City Council authorize staff to prepare an ordinance for a temporary construction impact mitigation gambling tax reduction to 9% as outlined above.

Approved By:                       City Manager \_\_\_\_\_ City Attorney \_\_\_\_\_

# ATTACHMENT A

## QUARTERLY CARD ROOM GROSS RECEIPTS

### 2001-2006

2nd Quarter 2006 Preliminary

#### Quarterly Comparison

<i>Goldies</i>	2001	2002	2003	2004	2005	2006	2006 v 2005	% dif
1st Quarter	1,581,845	1,516,572	1,425,190	1,679,818	1,615,173	1,333,886	-\$303,709	-18.80%
2nd Quarter	1,656,186	1,382,112	1,493,819	1,743,309	1,771,824			0.00%
3rd Quarter	1,583,226	1,342,264	1,448,460	1,633,438	1,672,859			0.00%
4th Quarter	0	1,527,983	1,200,574	1,958,758	1,698,535			0.00%
Total	4,821,256	5,768,931	5,568,043	7,015,323	6,758,391	1,333,886	(303,709)	
% Change		19.66%	-3.48%	25.99%	-3.66%			
<i>Golden Nugget</i>	2001	2002	2003	2004	2005	2006	2006 v 2005	% dif
1st Quarter	\$0	\$0	\$336,816	\$601,308	\$631,746	\$437,207	-\$194,539	-30.79%
2nd Quarter	\$0	\$177,278	\$679,044	\$519,997	\$566,650	\$635,482	\$68,832	12.15%
3rd Quarter	\$0	\$322,500	\$596,735	\$650,856	\$428,152			0.00%
4th Quarter	\$0	\$525,630	\$536,432	\$704,439	\$571,425			0.00%
Total	\$0	\$1,025,408	\$2,149,027	\$2,476,600	\$2,197,973	\$1,072,689	-\$125,707	
% Change		#DIV/0!	109.58%	15.24%	-11.25%			
<i>Debbies Drift On Inn</i>	2001	2002	2003	2004	2005	2006	2006 v 2005	% dif
1st Quarter	\$1,836,253	\$1,610,710	\$1,816,794	\$1,572,582	\$1,483,359	\$1,214,190	-\$269,169	-18.15%
2nd Quarter	\$1,832,593	\$1,591,370	\$1,756,551	\$1,528,107	\$1,526,305	\$1,009,261	-\$517,044	-33.88%
3rd Quarter	\$1,694,171	\$1,804,053	\$1,804,053	\$1,638,023	\$1,523,271			0.00%
4th Quarter	\$1,622,362	\$1,769,905	\$1,597,499	\$973,283	\$1,373,016			0.00%
Total	\$6,985,380	\$6,776,038	\$6,974,897	\$5,711,995	\$5,905,951	\$2,223,451	-\$786,213	
% Change		-3.00%	2.93%	-18.11%	3.40%			
<i>Hollywood</i>	2001	2002	2003	2004	2005	2006	2006 v 2005	% dif
1st Quarter	\$0	\$0	\$0	\$1,793,380	\$1,280,876	\$1,299,699	\$18,823	1.47%
2nd Quarter	0	0	0	\$1,424,691	\$1,549,087	\$1,176,396	-\$372,691	-24.06%
3rd Quarter	0	0	55,229.00	\$1,243,580	\$1,409,940			0.00%
4th Quarter	0	0	1,243,580.00	\$1,291,965	\$1,524,987			0.00%
Total	\$0	\$0	\$1,298,809	\$5,753,616	\$5,764,890	\$2,476,095	-\$353,868	
% Change				342.99%	0.20%			
<i>Parkers</i>	2001	2002	2003	2004	2005	2006	2006 v 2005	% dif
1st Quarter	\$1,378,009	\$1,167,105	\$1,154,996	\$1,361,737	\$1,575,857	1,311,464	-\$264,393	-16.78%
2nd Quarter	\$1,269,546	\$1,221,149	\$1,077,700	\$1,194,430	\$1,387,639	\$1,230,656	-\$156,983	-11.31%
3rd Quarter	\$1,006,044	\$1,054,086	\$1,122,202	\$1,355,911	\$1,327,413			0.00%
4th Quarter	\$1,399,350	\$1,206,821	\$930,357	\$1,543,761	\$1,419,823			0.00%
Total	\$5,052,948	\$4,649,161	\$4,285,255	\$5,455,839	\$5,710,732	\$2,542,120	-\$421,376	
% Change		-7.99%	-7.83%	27.32%	4.67%			
<b>GRAND TOTAL</b>	<b>16,859,584</b>	<b>18,219,538</b>	<b>20,276,031</b>	<b>26,413,373</b>	<b>26,337,937</b>			
<b>% CHANGE</b>		<b>8.07%</b>	<b>11.29%</b>	<b>30.27%</b>	<b>-0.29%</b>			

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