

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Ordinance No. 437 – Adopting an eight month reduction in the City Gambling Tax on Social Card Rooms to 9% of Gross Receipts

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 as result of declines in their activity levels. The City Manager recommendation is to adopt a 10% reduction lowering the gambling tax on social card rooms.

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.

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
- Smoking
- Regional Non-Tribal Competition
- On-Line Illegal Betting
- 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

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. 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. (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. 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.

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 offsetting 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 adopt Ordinance No. 437 for a temporary gambling tax reduction to 9% to mitigate the Aurora construction impact as outlined above.

ATTACHMENT: Ordinance No. 437 – Adopting an eight month reduction in the City gambling tax on social card rooms to 9% of gross receipts.

Approved By: City Manager  City Attorney ____

ORDINANCE NO. 437

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, ADOPTING AN EIGHT MONTH REDUCTION IN THE CITY GAMBLING TAX ON SOCIAL CARD ROOMS TO 9% 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 August 1, 2006 to March 31, 2007. Shoreline Municipal Code section 3.30.020 is amended as follows for the period August 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 9 ~~40~~ 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 ~~9~~ percent of the annual gross receipts exceeding \$10,000.

Section 3. Publication , Effective Dates. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. This ordinance shall take effect and be in full force from August 1, 2006.

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:

Effective Date:

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