

Multiple Agency Fiscal Note Summary

Bill Number: 5287 P S SB _P_	Title: Social card games
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Estimated Cash Receipts

Agency Name	2005-07		2007-09		2009-11	
	GF- State	Total	GF- State	Total	GF- State	Total
Washington State Gambling Commission	0	(1,155,000)	0	(1,250,000)	0	(1,250,000)
Department of Revenue	23,943,000	23,943,000	24,984,000	24,984,000	24,984,000	24,984,000
Total \$	23,943,000	22,788,000	24,984,000	23,734,000	24,984,000	23,734,000

Local Gov. Courts *						
Local Gov. Other **		(4,695,436)		(6,695,436)		(6,695,436)
Local Gov. Total		(4,695,436)		(6,695,436)		(6,695,436)

Estimated Expenditures

Agency Name	2005-07			2007-09			2009-11		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Washington State Gambling Commission	(8.7)	0	(1,155,000)	(9.4)	0	(1,250,000)	(9.4)	0	(1,250,000)
Department of Revenue	.2	70,600	70,600	.0	30,200	30,200	.0	30,200	30,200
Total	(8.5)	\$70,600	\$(1,084,400)	(9.4)	\$30,200	\$(1,219,800)	(9.4)	\$30,200	\$(1,219,800)

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

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Prepared by: Doug Jenkins, OFM	Phone: 360-902-0563	Date Published: Final 4/18/2005
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 12092

Individual State Agency Fiscal Note

Bill Number: 5287 P S SB _P_	Title: Social card games	Agency: 117-Washington State Gambling Comm
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
Gambling Revolving Account-Non-Appropriated 884-6	(530,000)	(625,000)	(1,155,000)	(1,250,000)	(1,250,000)
Total \$	(530,000)	(625,000)	(1,155,000)	(1,250,000)	(1,250,000)

Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	(7.9)	(9.4)	(8.7)	(9.4)	(9.4)
Fund					
Gambling Revolving Account-Non-Appropriated 884-6	(530,000)	(625,000)	(1,155,000)	(1,250,000)	(1,250,000)
Total \$	(530,000)	(625,000)	(1,155,000)	(1,250,000)	(1,250,000)

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 04/12/2005
Agency Preparation: Amy Blume Hunter	Phone: (360) 486-3463	Date: 04/15/2005
Agency Approval: Neal Nunamaker	Phone: (360) 486-3452	Date: 04/15/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 04/16/2005

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Under current law, only local jurisdictions can tax social card games; the maximum rate is set at 20% of the gross revenue. Sec. 2 (1) imposes a new 5% state tax on house-banked social card games only; it does not apply to poker games. If the card room is in a jurisdiction that collects more than 10% already, the card room is given a credit for the additional amount (Sec. 2 (2)). For example, if the local jurisdiction's tax rate is 12%, the card room would pay 3% for the new state tax, receiving a credit for the 2% (which represents the amount over 10%).

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

The additional tax may cause some card rooms to stop operating their social card games. Some may continue to operate their food and drink/restaurant business (which is required for a gambling license), while others may close the business entirely. Because the agency is funded by the license fees paid by card rooms (as well as license fees for other types of the gambling, such as pull-tabs), if a business stops operating gambling, the agency will receive less revenue.

There are currently about 95 house-banked card rooms in the state that would be affected by this tax. These card rooms operate house-banked card games, such as Blackjack. Many of them also operate some poker tables; poker is a non-house banked game. Therefore, the tax would not apply to the poker games.

House-banked card rooms are required to submit comprehensive financial information to the Commission, some of which also includes revenue and expense information about their food and drink business, in addition to gambling revenue.

Based on 2003 information for house-banked card rooms, 33 were operating at an overall net loss (including the food and drink portion of the business). At least six of these card rooms have since closed.

When we apply the additional 5% state tax, an additional 13 house-banked card rooms would be operating at an overall net loss (for a total of 46).

Although it is difficult to estimate, we believe that 15 house-banked card rooms would stop operating, with an annual loss in fees at \$385,000.

The average house-banked card room has 78 card room employees, which the agency licenses. Therefore, the closure of the card room portion of the business would reduce the revenue received for card room employee licenses by \$145,000 for FY06 and \$240,000 for FY07 and thereafter.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Because the Commission is a non-appropriated agency, a decrease in revenue will require a corresponding decrease in expenditures. If the number of house-banked card rooms decrease, there should be a corresponding decrease in the work required by the agency. Like most agencies, the agency's largest expenditures are for staff salaries and benefits. Therefore, any necessary expenditure decreases would have to be accomplished by decreasing staff. Because the Commission has not determined which specific positions would be reduced, this note uses the EMS job class as a proxy for the classes that would be reduced if the bill is enacted.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	(7.9)	(9.4)	(8.7)	(9.4)	(9.4)
A-Salaries and Wages	(316,000)	(376,000)	(692,000)	(752,000)	(752,000)
B-Employee Benefits	(100,000)	(119,000)	(219,000)	(238,000)	(238,000)
C-Personal Service Contracts					
E-Goods and Services	(114,000)	(130,000)	(244,000)	(260,000)	(260,000)
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	\$(530,000)	\$(625,000)	\$(1,155,000)	\$(1,250,000)	\$(1,250,000)

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
EMS	40,000	(7.9)	(9.4)	(8.7)	(9.4)	(9.4)
Total FTE's		(7.9)	(9.4)	(8.7)	(9.4)	(9.4)

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5287 P S SB _P_	Title: Social card games	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
GF-STATE-State 00 - 00 -	11,451,000	12,492,000	23,943,000	24,984,000	24,984,000
Total \$	11,451,000	12,492,000	23,943,000	24,984,000	24,984,000

Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.4	0.0	0.2	0.0	0.0
Fund					
GF-STATE-State 001-1	55,500	15,100	70,600	30,200	30,200
Total \$	55,500	15,100	70,600	30,200	30,200

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 04/12/2005
Agency Preparation: Ray Philen	Phone: 360-570-6078	Date: 04/15/2005
Agency Approval: Mary Welsh	Phone: 360-570-6076	Date: 04/15/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 04/16/2005

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects language for PSSB 5287 - S3092.3/05.

This bill imposes a business and occupation tax on social card games and caps the total amount of tax that can be imposed from January 1, 2005 on.

Section 1: Defines "Gross Revenue," "House-banked Social Card Games," and "Social Card Games."

Section 2: Levies a state business and occupation tax of 5 percent on gross revenue on house banked social card games. Gross revenue is defined as any fees collected in regard to social card games and the gross wagers received by a licensee from the operation of house-banked social card games, less the amount paid to players for winning wagers, accrual of prizes for progressive jackpot contests, and repayment of amounts used to seed guaranteed progressive jackpot prizes. If local governmental units impose a tax greater than 10 percent, then the rate above 10 percent is credited against the state business and occupation tax. All other taxes imposed currently will continue.

Section 3: Public benefit account is created. All proceeds from this tax are to be deposited to that account.

Section 5: Sets an over all limit of 20 percent on the taxation of non-house banked social card games. The taxation of house-banked social card games may not exceed 10 percent except if the local government unit had that rate in effect as of January 1, 2005. Freezes the tax rate at the January 1, 2005 rate.

Section 7: Lists how the collected tax is to be spent.

Section 8: Effective date is July 1, 2005.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

Data Sources:
Washington Gambling Commission.
Association of Washington Cities.

CURRENTLY REPORTING TAXPAYERS (Impact for taxpayers who are known or estimated to be currently paying the tax in question)

Revenues taxable under section 2 are expected to be as follows:

FY 06	\$279,000,000
FY 07	279,000,000

Washington does not have a state gambling tax. However, business and occupation tax is imposed on gambling net receipts at a rate of 1.5 percent.

Section 2 also establishes a business and occupation credit for taxes imposed by a county, city, or town in excess of 10 percent of gross revenue.

Section 5 amends RCW 9.46.110 so that gross revenue from social card games may not exceed 10 percent, except for any county, city, or town that imposed and collected a tax on card games under this section on January 1, 2005, that is greater than 10 percent of the gross revenue from such games. The rate may not exceed the rate in effect on January 1, 2005.

Credits taken under section 2(2), including the limitation of section 5, are expected to be:

FY 06 \$1,466,000

FY 07 1,466,000

The net effect of sections 2 and 5 is an increase in general fund revenue of approximately \$11.4 million in fiscal year 2006.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2006 - \$ 11,451

FY 2007 - \$ 12,492

FY 2008 - \$ 12,492

FY 2009 - \$ 12,492

FY 2010 - \$ 12,492

FY 2011 - \$ 12,492

Local Government, if applicable (cash basis, \$000): See local government fiscal note.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Assumptions:

1. A new tax return must be designed to handle tax reporting.

To implement this legislation, the Department will incur costs of approximately \$55,500 during FY06. These costs include:

1. 0.01 FTE at the Financial Analyst 5 level and .01 FTE at the Financial Analyst 1 level to set up worksheets and post monthly revenues.
2. 0.20 FTE at an ITAS 4 level for computer programming and system changes.
3. 0.06 FTE at an ITSS 4 level to design and test the new return yearly.
4. 0.05 FTE at an ETE 3 level to add a line to the e-file return.
5. \$6,200 in consultant time to configure a new paper OCR/ICR compatible return.
6. \$13,200 in mailing costs for sending out approximately 13,200 returns per year.
7. \$9,800 to amend one administrative rule. This represents staff time, printing, and postage.
8. \$1,260 for printing and postage associated with sending a Special Notice to businesses with a gambling license.

In addition, the Department will incur estimated costs of \$15,100 in FY 07 and \$30,200 during each of the 2007-2009 and 2009-2011 Biennia. These ongoing costs are described in three and six above.

Without an appropriation to cover the expenditure impact, the Department may not be fully able to implement the legislation.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.4	0.0	0.2	0.0	0.0
A-	20.400	1,400	21,800	2,800	2,800
B-	5.100	300	5,400	600	600
C-	6.200		6,200		
E-	21.100	13,400	34,500	26,800	26,800
J-	2.700		2,700		
Total \$	\$55,500	\$15,100	\$70,600	\$30,200	\$30,200

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
EXCISE TAX EXAMINER 3	41.520	0.1		0.0		
FINANCIAL ANALYST 1	31.032	0.0	0.0	0.0	0.0	0.0
FINANCIAL ANALYST 5	49.380	0.0	0.0	0.0	0.0	0.0
HEARINGS SCHEDULER	31.032	0.0		0.0		
INFO TECH APP SPEC 4	51.864	0.2		0.1		
INFO TECH SYS SPEC 4	51.864	0.1	0.0	0.0	0.0	0.0
RULES MANAGER	69.500	0.0		0.0		
RULES POLICY SPECIALIST	68.600	0.0		0.0		
TAX POLICY SPECIALIST 2	51.864	0.0		0.0		
TAX POLICY SPECIALIST 3	58.656	0.1		0.0		
Total FTE's		0.4	0.0	0.3	0.0	0.0

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department would use the standard legal process to amend WAC 458-20-131-Games of Chance. Persons affected by this rulemaking would include casinos, card rooms, and similar businesses licensed by the Gambling Commission to conduct house-banked social card games.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 5287 P S SB _P_ **Title:** Social card games

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities:
- ☒ Counties:
- ☐ Special Districts:
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☐ Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2006	FY 2007	2005-07	2007-09	2009-11
City	(2,778,606)	(2,778,606)	(5,557,212)	(5,557,212)	(5,557,212)
County	430,888	430,888	861,776	(1,138,224)	(1,138,224)
Special District					
TOTAL \$	(2,347,718)	(2,347,718)	(4,695,436)	(6,695,436)	(6,695,436)
GRAND TOTAL \$					(18,086,308)

Estimated expenditure impacts to:

Jurisdiction	FY 2006	FY 2007	2005-07	2007-09	2009-11
City					
County					
Special District					
TOTAL \$					
GRAND TOTAL \$					0

Part III: Preparation and Approval

Fiscal Note Analyst: Linda Kercher	Phone: 360-725-5038	Date: 04/17/2005
Leg. Committee Contact:	Phone:	Date: 04/12/2005
Agency Approval: Louise Deng Davis	Phone: (360) 725-5034	Date: 04/18/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 04/18/2005

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

Sec. 2 creates a state tax on the operation of house-banked social card games at a rate of 5 percent of gross revenue, and provides for a credit for tax imposed by a local government in excess of 10 percent.

Sec. 3 establishes the public benefit account and directs that receipts from the tax created in Sec. 2 be deposited into the account.

Sec. 5 amends the tax rate that local governments may impose on house-banked social card games, lowering it from 20 percent to 10 percent except if the local government imposed a higher rate as of Jan. 1, 2005.

Sec. 6 provides for appropriations from the public benefit account, including \$2 million to fund methamphetamine programs in Pierce and Snohomish counties.

Sec. 7 provides that the bill's measures take effect July 1, 2005.

DIFFERENCES BETWEEN PSSBP 5287 AND THE ORIGINAL BILL:

This bill reduces the new state tax rate from 10 percent in the original bill to 5 percent in this version. The bill also reduces the local tax rate only for house-banked social card games, as opposed to nonhouse-banked social card games. Additionally, it directs tax proceeds from the new state tax into the public benefit account and provides for appropriations. The original bill directed proceeds to the general fund.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

No local expenditure impact is anticipated under this bill.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

Under this bill, local governments could experience an estimated \$3.3 million reduction in local gambling tax revenue from house-banked card-room operations per year. Cities could lose approximately \$2.8 million, and counties \$569,112. In the 2005-2007 biennium, counties are expected to receive grants funded through the public benefit account created in this bill. Therefore, the impact to counties in FY06 and FY07 is the net of a revenue gain from grants less a revenue loss from gambling tax reductions.

DISCUSSION:

Public Benefit Account Grants

Section 7 of the bill directs certain amounts of funds in the public benefit account be appropriated to the Department of Community, Trade, and Economic Development (CTED) to provide grants totalling \$2 million to fund methamphetamine programs in Pierce and Snohomish counties. This funding is reflected as a gain for counties in FY06 and FY07, offsetting \$569,112 in gambling tax revenue losses by \$1 million in grant revenue in both FY06 and FY07.

Local Gambling Revenue Loss

The above estimated local gambling tax losses are due to the closure of 15 house-banked card-room operations anticipated by the Washington State Gambling Commission. (See Gambling Commission's note for discussion of card-room operation closures.)

Other minimal revenue losses:

If any closures occur in cities that levy a business and occupation (B&O) tax, a loss of local B&O revenue on food and drink operations would result.

Potential future impact:

Local jurisdictions would lose future taxing potential due to the taxing levels proposed in this bill and the freeze on the local tax rate as of January 2005. Further, the higher overall tax rates may lead gambling operators to request that local jurisdictions lower their portion of gambling taxes.

METHODOLOGY:

The local revenue loss estimate is based on 2003 gross receipts and local tax rates reported by house-banked card rooms to the Gambling Commission. The closure of 15 house-banked card-room operations is estimated to account for 13.63 percent of total house-banked card room gross receipts. (See assumptions)

In 2003, house-banked card-room gross receipts totaled \$245,613,904.

Estimated gross receipts for 15 closures: \$33,477,175 [$245,613,904 \times 0.1363 = 33,477,175$]

The average local gambling tax rate for card rooms was 10 percent in 2003, according to information reported by card room operators to the Gambling Commission.

Estimated yearly local revenue loss from closures: \$3,347,718 [$33,477,175 \times 0.10 = 3,347,718$]

Distribution of estimated local gambling revenue loss between counties and cities was based on distribution of card-game gambling revenue. According to 2003 BARS data, cities received 83 percent of card-game gambling tax revenue and counties received 17 percent. The distribution for this note was calculated as follows:

Estimated yearly local revenue loss: \$3,347,718

Cities' loss: \$2,778,606 [$3,347,718 \times 0.83 = 2,778,606$]

Counties' loss: \$569,112 [$3,347,718 \times 0.17 = 569,112$]

Assumptions:

Grants totalling \$2 million to Pierce and Snohomish counties' methamphetamine programs are reflected as equal distributions in FY06 and FY07 -- \$1 million per year.

Fifteen house-banked card rooms would not be able to sustain operations under the new tax levels. The 15 card rooms would have continued operating throughout FY11 but for the overall tax rate increase under this bill. The card rooms would have generated the same level of yearly gross receipts, and in turn, local gambling tax revenue throughout FY11.

Under the original bill, the Gambling Commission estimated that higher tax rates would contribute to the closure of 20 house-banked card-room operations. The commission further estimated that 20 closures would account for 18.17 percent of total house-banked card-room gross receipts. It is assumed for the purposes of this analysis, that the percentage of gross receipts per closure equals 0.9085 percent (18.17 percent divided by 20 = 0.9085 percent). It is assumed that 15 closures would account for 13.62 percent ($0.009085 \times 15 = 0.1363$).

NOTE: The revenue loss estimate does not take into account increase in gross receipts, and in turn local tax revenue, that remaining card rooms may experience as a result of the closure of 15 card rooms.

SOURCES

Local Government Fiscal Note for SB 5287

Washington State Gambling Commission

Budgeting, Accounting and Reporting System (BARS) – State Auditor's Office

Association of Washington Cities

City of Shoreline

Department of Revenue

DIFFERENCE IN IMPACT FROM ORIGINAL BILL:

Local revenue loss under the original bill was estimated as \$4,462,805 per year resulting from the closure of 20 house-banked card-room operations.