

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1114 HB	<b>Title:</b> Internet poker
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## Estimated Cash Receipts

Agency Name	2015-17		2017-19		2019-21	
	GF- State	Total	GF- State	Total	GF- State	Total
Washington State Gambling Commission	0	1,835,375	0	3,009,850	0	3,009,850
<b>Total \$</b>	<b>0</b>	<b>1,835,375</b>	<b>0</b>	<b>3,009,850</b>	<b>0</b>	<b>3,009,850</b>

## Estimated Expenditures

Agency Name	2015-17			2017-19			2019-21		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of Attorney General	.0	0	0	.0	0	0	.0	0	0
Washington State Gambling Commission	7.5	0	1,364,532	10.0	0	1,804,076	10.0	0	1,804,076
<b>Total</b>	<b>7.5</b>	<b>\$0</b>	<b>\$1,364,532</b>	<b>10.0</b>	<b>\$0</b>	<b>\$1,804,076</b>	<b>10.0</b>	<b>\$0</b>	<b>\$1,804,076</b>

## Estimated Capital Budget Impact

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

<http://www.ofm.wa.gov/tax/default.asp>

<b>Prepared by:</b> Chris Stanley, OFM	<b>Phone:</b> (360) 902-9810	<b>Date Published:</b> Final 1/19/2015
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

ENPID: 38081

FNS029 Multi Agency rollup

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1114 HB	<b>Title:</b> Internet poker	<b>Agency:</b> 100-Office of Attorney General
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## Part I: Estimates

**No Fiscal Impact**

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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: 01/12/2015
Agency Preparation: Pamela Anderson	Phone: 360 664-4963	Date: 01/16/2015
Agency Approval: Brendan VanderVelde	Phone: 360 586-2104	Date: 01/16/2015
OFM Review: Chris Stanley	Phone: (360) 902-9810	Date: 01/16/2015

## **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.*

The AGO worked with the Gambling Commission's (GAM) lead counsel and determined that it would require rulemaking by the GAM to implement the provisions of the bill. The lead counsel currently meets with GAM staff each month and rulemaking is a recurring agenda item. The AGO does not anticipate any additional meetings or discussions beyond what is normal for GAM rulemaking.

Once rules are in place, there may be times when changes may be made to them, but those changes would again follow the same normal monthly process.

As to existing tribal compacts, the AGO also regularly provides advice and participates in tribal negotiations. Our evaluation of potential impacts of this bill did not generate any determination that this workload will increase.

As to any enforcement proceedings that may result from licensing issues, we do very few license denial cases and do not anticipate any change from the existing number of such cases received from GAM.

### **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.*

None.

### **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.*

None.

## **Part III: Expenditure Detail**

## **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.*

None.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1114 HB	<b>Title:</b> Internet poker	<b>Agency:</b> 117-Washington State Gambling Comm
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

ACCOUNT	FY 2016	FY 2017	2015-17	2017-19	2019-21
Gambling Revolving	597,250	1,238,125	1,835,375	3,009,850	3,009,850
Account-Non-Appropriated 884-6					
<b>Total \$</b>	597,250	1,238,125	1,835,375	3,009,850	3,009,850

### Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	5.0	10.0	7.5	10.0	10.0
<b>Account</b>					
Gambling Revolving	437,994	926,538	1,364,532	1,804,076	1,804,076
Account-Non-Appropriated 884-6					
<b>Total \$</b>	437,994	926,538	1,364,532	1,804,076	1,804,076

### Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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: 01/12/2015
Agency Preparation: Donna Khanhasa	Phone: (360) 486-3565	Date: 01/16/2015
Agency Approval: Tina Griffin	Phone: (360) 486-3546	Date: 01/16/2015
OFM Review: Chris Stanley	Phone: (360) 902-9810	Date: 01/19/2015

## 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.*

Section 1 explains that it is the legislature's intent to establish a regulatory framework for the Washington State Gambling Commission (the commission) or a Tribal regulator to authorize entities to offer poker games to players within Washington State over the internet.

Section 2, subsection (2) requires the commission to establish a two-tiered licensing regime - one for operating an internet card room and one for operating an internet poker network.

Section 2, subsection (3) requires the commission to:

- (a) develop rules for individuals seeking to open an internet poker account or participate as a player in internet poker games offered by authorized internet card rooms, to determine suitability to play;
- (b) develop protocols related to the resolution of disputes arising between players, networks, or operators;
- (c) establish a code of conduct governing commission employees that ensures persons subject to this chapter avoid situations, relationships, or associations that may represent or lead to an actual or perceived conflict of interest;
- (d) establish and collect all license and certification fees and taxes imposed by this chapter;
- (e) develop and enforce requirements for responsible gaming and player protection and develop a program for recognizing and addressing behavior associated with problem gambling;
- (f) develop requirements for conducting transactions between players and internet poker rooms;
- (g) take enforcement action against those operating illegal internet gambling businesses; and
- (h) develop and administer civil penalties for those who violate this chapter or rules.

Section 2, subsection (4) allows the commission to develop rules to assure that qualified internet card room operators have access to internet poker networks and to prevent anticompetitive exclusions.

Section 3, subsection (1) allows the commission to issue a license to operate an internet poker network to businesses registered to do business in Washington State that have met certain criteria.

Section 3, subsection (4) requires the commission to institute significant fees to operate an internet poker network, with the intent to capture nine percent of the total gross revenue generated from internet poker. Five percent of the fees must be directed toward combating problem gambling.

Section 4 allows the commission to issue a license for a period of one year to operate an internet poker room to businesses registered to do business in Washington State that have met certain criteria. Among other criteria, the business must currently offer poker games on their premises, be licensed to do so, and have been in good standing for two years prior to application.

Section 5 requires the commission to establish regulations covering ancillary services to internet poker rooms and internet poker networks, where those services are directly related to gambling activity, and may approve those deemed suitable to offer such services pursuant to those rules.

Section 12 amends the legislative declaration. Among other changes, it recognizes the need to restrain underage individuals from accessing gambling activities, including internet poker.

Section 13, subsection (18) gives authority to the commission to establish regulations to implement a system of internet poker.

Assumptions:

There are currently three states that offer intranet gambling – New Jersey, Delaware, and Nevada. All three launched between April and October of 2013. Both New Jersey and Delaware offer online poker, table games, and slots. Only licensed casinos in New Jersey can offer online gaming. The Delaware Lottery operates the online gaming for the state so they do not have any licensees.

We used Nevada as a guide for determining the number of licensees, license fees, and gross receipts because Nevada offers only internet poker. They also license network providers, operators, and service providers, which would be similar to the structure outlined in the bill.

According to the April 2013 figures provided by the United States Census Bureau (estimates based on the 2010 census), the population of Washington State 18 years of age and over is 2.70 million, and the comparative population of Nevada is 1 million. Nevada allows persons 21 years of age and over to gamble and Washington allows persons 18 years of age and over to gamble. Available population data does not include the number of persons 21 years of age and over, therefore, we based assumptions using Nevada only as a guideline to estimate revenue. According to figures provided by the Nevada Gaming Control Board, in 2014, Nevada's Interactive Poker Revenue was \$9,955,000, from the rake and tournament fees. For the purposes of this fiscal note, we are estimating that Washington will have annual internet poker revenue of approximately \$15 million based, in part, on the difference in population between Nevada and Washington. We are assuming that annual internet poker revenue will be from the rake, tournament fees, and administrative fees for player supported jackpots.

We are assuming that there will be three internet poker card rooms, based on the amount of capital needed for startup. In Nevada, there were initially three approved and licensed operators of interactive gaming. As of November 2014, they have two. The one operator shut down November 2014 citing a lack of profitability after operating for 19 months, according to an article published by the Las Vegas Review Journal.

Section 4, subsection (1)(a) allows the commission to issue a license to operate an internet poker room to businesses registered in Washington that currently offer poker games, are licensed to do so, and have had a license in good standing for two years prior to application. Based on this, we are assuming that only those card rooms licensed as of the effective date of the bill would qualify for a license to operate an internet poker card room.

As of December 31, 2014, there were 194 card room licensees. The card room licensees consist of: 2 Class B; 128 Class D; 10 Class E; 5 Class F; and 49 house-banked card rooms. We are assuming that of the licensees, only house-banked card rooms would have the necessary capital and infrastructure to operate an internet card room.

We anticipate there will be three internet poker network providers based on the assumption there will be a separate provider for each on the internet poker room licensees. This is consistent with what Nevada has experienced.

For the ancillary services in Section 5, we estimate that the number of service providers will closely reflect the

Nevada model. These include people or organizations who act on behalf of an establishment licensed to operate interactive poker for such things as location determination (geo-location), patron identification, patron authentication, payment processing, jackpot systems, and account management. We anticipate there will be about 25 service providers based on the fact that Nevada Gaming Commission Quarterly Statistics Report dated September 30, 2014, as found on their website, lists 24 Interactive Gaming Service Provider licensees and their January 6, 2015, report lists 22 active licensees.

We are assuming we would license as representatives the employees of the internet poker networks and service providers who would have access to the gambling software and equipment. For the purposes of this fiscal note, we are assuming that there will be five service provider representatives per service provider and ten internet poker network representatives per network. Because the house-banked card rooms already have licensed employees, for purposes of this fiscal note, we are not assuming additional card room employees would need to be licensed.

Nevada implemented their intranet gaming in 22 months beginning with initial approval by their governor in June 2011 to the first live poker site in April 2013. We are estimating that it will take us approximately 18 to 24 months after the effective date of this bill (July 25, 2015) for implementation. For the purposes of this fiscal note, we are assuming a launch date of August 1, 2017. This timeframe will allow us time to establish and adopt rules, develop the licensing and regulatory programs, provide for testing of the applicants' systems, hire staff, and allow all operators an opportunity to launch their services on the same date. Launching on the same date is required by Section 3, subsection (5).

Based on Section 2, subsection (2)(g)'s requirement that the commission take enforcement action against illegal internet gambling businesses, we anticipate an increase in enforcement cases. We have estimated we would need to have two Special Agents and one WMS position to carry out the duties required, including taking enforcement action on illegal internet gambling businesses. We are assuming additional staffing costs, but are not including possible costs related to administrative hearings or other legal proceedings.

Section 2, subsection (3)(e) requires the commission to develop requirements for responsible gaming and player protection as well as developing a program for recognizing and addressing behavior associated with problem gambling. To address these requirements, we would require internet poker networks to develop protocols for responsible gaming, player protection and to detect behaviors associated with problem gambling. We would contract out with a nonprofit organization or a state agency to satisfy the requirement to develop a program for recognizing and addressing behaviors associated with problem gambling. We are assuming the cost of this contract would be paid with 5% of the fees collected from internet poker networks to combat problem gambling as outlined in Section 3, subsection (4).

In addition, if this bill passes, we anticipate the Tribes will request renegotiation of their Compacts; renegotiations will require additional expenditures from the gambling revolving account in an amount that is difficult to estimate. There are 29 federally recognized Tribes in Washington that have a Class III Gaming Compact. Twenty-two Tribes operate 28 Tribal casinos in the state. Seven Tribes have compacts, but do not operate casinos.

## **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.*

Section 2, subsection (2) requires the commission to establish a two-tiered licensing regime - one for operating

an internet card room and one for operating an internet poker network.

Section 2, subsection (3)(d) requires the commission to establish and collect all license and certification fees and taxes imposed by this chapter.

Section 3, subsection (4) requires the commission to institute significant fees to operate an internet poker network, with the intent to capture nine percent of the total gross revenue generated from internet poker.

Revenue estimates included here are generated through the following license fees:

- Internet card room initial fee of \$125,000 for the first year and \$25,000 for annual renewal;
- Internet poker network annual fee of \$450,000;
- Service provider annual fee of \$2,000 plus actual initial investigative costs; and
- Internet poker network and service provider representative application fee of \$375 and \$175 annual renewal.

We anticipate receiving the following applications in the 2015-17 Biennium:

FY16: one internet poker network, ten internet poker network representatives, one internet card room, five service providers, and 25 service provider representatives.

FY17: two internet poker networks, 20 internet poker network representatives, two internet card rooms, 20 service providers, and 100 service provider representatives.

For the purposes of this fiscal note, we used Nevada's license fee structure as a guideline. For the internet poker network license fee, we based it on Section 3, subsection (4), which requires the commission to institute significant fees to operate an internet poker network, with the intent to capture nine percent of the total gross revenue generated from internet poker. Because we are assuming that there will be \$15 million in receipts per year, we multiplied that by 9% then divided it by three licensees to get an annual license fee of \$450,000.

We are assuming that gross revenue will be from the rake, tournament fees, and administrative fees for player supported jackpots.

Because this a new gambling activity, we anticipate gambling receipts from other gambling activities to be impacted, which would decrease our license fees since our license fees are based on gambling receipts. We cannot determine the actual impact this new gambling activity will have on our revenue from other gambling activities. We cannot predict whether online poker players participate in other authorized gambling activities in Washington. For the purposes of this fiscal note, we are not assuming a decrease in cash receipts (license fees) from other gambling activities.

## **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.*

Section 2, subsection (3)(e) require us to develop requirements for responsible gaming and player protection as well as developing a program for recognizing and addressing behavior associated with problem gambling. To address these requirements, we would require internet poker networks to develop protocols for responsible gaming, player protection and to detect behaviors associated with problem gambling. We would contract out with a nonprofit organization or a state agency the requirement to develop a program for recognizing and addressing behaviors associated with problem gambling. We are assuming the cost of this contract would be paid with 5% of the fees collected from internet poker networks to combat problem gambling as outlined in Section 3, subsection (4).

Section 13, subsection (18) gives authority to the commission to establish regulations to implement a system of internet poker.

Assuming that the license fee will be \$450,000 for internet poker networks per year, and that there will be three licensees, the commission will have to pay the contracted fee of \$67,500 (\$450,000 x 3 licensees x 5%) to combat problem gambling every year.

The following numbers and types of positions would be required to fulfill the obligations in Section 2, subsection (3) and Section 13, subsection (18):

- 5 Special Agents
- 1 Special Agent Supervisor
- 2 Information Technology Specialists 2
- 2 WMS positions

We are assuming that we would hire one Special Agent, two Information Technology Specialists 2, and two WMS positions in FY 16 to assist with the rule making, licensing, and testing of software and equipment. In FY 17, we would hire the additional four Special Agents and the Special Agent Supervisor for the regulatory program and to take enforcement action as required in Section 2, subsection (3)(g).

Two WMS positions are based on assuming an increase in enforcement cases; however, we cannot estimate the exact costs or numbers of cases. Section 2, subsection (3)(a) requires the commission to deny participation of individuals to participate as a player in internet poker based on rules developed by the commission. Section 2, subsection (3)(g) requires the commission to take enforcement action against persons operating illegal internet gambling businesses. The bill also requires the commission to make licensing suitability determinations that may result in enforcement and administrative cases. The additional WMS positions also assume an increase in developing an enforcement and regulatory program, including rule making.

We anticipate that we will spend approximately \$10,000 on testing equipment in the first year, and \$2,000 per year, beginning in year three.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	5.0	10.0	7.5	10.0	10.0
A-Salaries and Wages	275,124	545,364	820,488	1,090,728	1,090,728
B-Employee Benefits	96,294	190,878	287,172	381,756	381,756
C-Professional Service Contracts		67,500	67,500	135,000	135,000
E-Goods and Other Services	52,256	112,476	164,732	175,952	175,952
G-Travel	4,320	10,320	14,640	20,640	20,640
J-Capital Outlays	10,000		10,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$437,994	\$926,538	\$1,364,532	\$1,804,076	\$1,804,076

**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 2016	FY 2017	2015-17	2017-19	2019-21
Gambling Special Agent	52,380	1.0	5.0	3.0	5.0	5.0
IT Specialist 2	50,568	2.0	2.0	2.0	2.0	2.0
Special Agent Supervisor	60,720		1.0	0.5	1.0	1.0
WMS Band 1	60,804	2.0	2.0	2.0	2.0	2.0
<b>Total FTE's</b>	224,472	5.0	10.0	7.5	10.0	10.0

**Part IV: Capital Budget Impact**

NONE

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.*

Section 2, subsection (1) authorizes conducting and playing internet poker games for money pursuant to rules adopted by the commission.

Section 2, subsection (3) requires the commission to establish a two-tiered licensing regime. This will require the commission to create rules for such a licensing regime.

Section 2, subsection (3)(a) requires the commission to develop rules governing suitability of individuals seeking to open an internet poker account or participate as a player in internet poker games offered by authorized internet card rooms.

Section 2, subsection (3)(b) requires the commission to develop “protocols” related to dispute resolution between players, networks, or operators. The commission assumes “protocols” would need to be codified through rule making in order to provide due process.

Section 2, subsection (3)(d) requires the commission to establish and collect license and certification fees and taxes. The commission’s fees are entirely codified in Washington Administrative Code, Title 230, and therefore, it is assumed the commission would need to codify the fees and taxes through rule making.

Section 2, subsection (3)(e) requires the commission to develop and enforce requirements for responsible gaming and player protection. The commission’s requirements for current licensees are entirely codified in Washington Administrative Code, Title 230, and therefore, it is assumed the commission would need to codify the requirements through rule making.

Section 2, subsection (3)(f) requires the commission to develop requirements for conducting transaction between players and internet poker rooms. These requirements would be codified through rule making.

Section 2, subsection (4), authorizes the commission to develop rules to assure qualified internet card room operators have access to internet poker networks and to prevent anticompetitive exclusions.

Section 3 authorizes the commission to issue licenses to operate an internet poker network. The commission’s licensing requirements are entirely codified in Washington Administrative Code, Title 230, and therefore, it is assumed the commission would need to codify the requirements through rule making.

Section 4, subsection (1) authorizes the commission to issue licenses to operate an internet poker room conducting and playing internet poker games for money pursuant to rules adopted by the commission.

Section 5 requires the commission to develop rules covering ancillary services to internet poker rooms and internet poker

networks.

Section 13, subsection (18) requires the commission to develop rules to implement a system of internet poker at locations as the commission may determine.