

Agency: 117 Washington State Gambling Comm
Decision Package Code/Title: AG Adjust CFL to Agency FY15 Plan
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

This decision package reduces OFM's Carry Forward Level to reflect the Commission approved FY15 budget in FY16 and FY17. The Commission has been a non-general fund and non-appropriated agency that receives funding through licensing and regulatory fees paid by licensees and Tribal Governments. Annual revenue from these sources has dropped 16.4% since FY05, and continues to decrease. In FY09, the Commission received Federal and State Seizure funds that have been used to support allowable operating expenses.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
03K-6 Industrial Insurance Premium Refund-Non-Appropriated	8,000	8,000	16,000
141-6 Federal Seizure Account-Non-Appropriated	(325,864)	(153,864)	(479,728)
226-6 State Seizure Account-Non-Appropriated	(344,595)	257,405	(87,190)
884-6 Gambling Revolving Account-Non-Appropriated	(600,740)	(1,101,740)	(1,702,480)
Total Cost	(1,263,199)	(990,199)	(2,253,398)
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	-14.5	-10.5	-12.5

Package Description:

This decision package reduces OFM's Carry Forward Level to reflect the Commission approved FY15 budget in FY16 and FY17. The Commission has been a non-general fund and non-appropriated agency that receives funding through licensing and regulatory fees paid by licensees and Tribal Governments. Annual revenue from these sources has dropped 16.4% since FY05, and continues to decrease.

In FY09, the Commission received Federal and State Seizure funds that have been used to support allowable operating expenses. These funds will essentially be depleted at the end of FY15.

With continuous reductions in licensing and regulatory revenues and diminishing seizure funds, the Commission has revised expenditure plans each year for several years, using the previous year's experience to reduce budgets. The FY15 plan approved by the Commission in July 2014 totals \$14,146,801 (including \$1,485,541 in seizure funds and \$8,000 in Industrial Insurance Premium Refund monies). Extending that budget for each year in the ensuing biennium established a starting level of \$28,277,602, \$2,269,398 lower than OFM's CFL.

The decision packages that follow adjust the Commission budget from this lower base.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

None. This decision package adjusts CFL down the the Level approved by the Commission for FY15. Because it reflects the Commission's current operating level, it does not change performance outcomes.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package is essential to align projected expenditures with resources available to the Commission.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision packages reduces planned expenditures in light of the Commission's reduced resources.

What are the other important connections or impacts related to this proposal?

This decision packages reduces planned expenditures in light of the Commission's reduced resources.

What alternatives were explored by the agency, and why was this alternative chosen?

This decision packages reduces planned expenditures in light of the Commission's reduced resources.

What are the consequences of adopting or not adopting this package?

This decision packages reduces planned expenditures in light of the Commission's reduced resources.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Because revenues available to the Commission are projected to be well below the expenditure level defined by OFM's Carry Forward Level, the Commission established a lower base (it's FY15 allotment level for both FY16 and FY17) before determining decision packages to adjust the 15-17 Biennium Budget to available resources and request state General Fund monies to maintain a minimum capacity to deliver it statutory duty to protect the public by keeping gambling legal and honest.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

This decision package is a one-time adjustment to create a base of Commission deliberations on adjustments for the 15-17 Biennium budget.

Agency: 117 Washington State Gambling Comm
Decision Package Code/Title: AH Transfer Funds/Other Adjustments
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

This decision package transfers expenditures supported by Seizure Funds in the 2013-15 Biennium and included in Carry Forward Level to the Gambling Revolving Account for the 2015-17 Biennium. It also includes classified and exempt salary increases that have occurred and funds the increase in the agency health care contribution rate from \$662/month/eligible employee in FY15 to \$880 in the 2015-17 Biennium.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
141-6 Federal Seizure Account-Non-Appropriated	(297,899)	(316,136)	(614,035)
226-6 State Seizure Account-Non-Appropriated	(1,169,405)	(1,169,405)	(2,338,810)
884-6 Gambling Revolving Account-Non-Appropriated	1,666,547	1,622,168	3,288,715
Total Cost	199,243	136,627	335,870

Package Description:

This decision package transfers expenditures supported by Seizure Funds in the 2013-15 Biennium and included in the OFM Carry Forward Level to the Gambling Revolving Account for the 2015-17 Biennium. It also includes classified and exempt salary increases that have occurred and funds the increase in the agency health care contribution rate from \$662/month/eligible employee in FY15 to \$880 in the 2015-17 Biennium.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Not Applicable.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Not Applicable.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Not Applicable.

What are the other important connections or impacts related to this proposal?

Not Applicable.

What alternatives were explored by the agency, and why was this alternative chosen?

Not Applicable.

What are the consequences of adopting or not adopting this package?

Not Applicable.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Not Applicable.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Not Applicable.

BASS - BDS017

State of Washington
Decision Package

August 28, 2014

Agency: 117 Washington State Gambling Comm
Decision Package Code/Title: N0 Fund Health Care Cost Increase
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

This decision package requests state General Fund resources to replace 3.5 FTEs displaced by the cost of increasing the agency's share of employee health care benefits from the FY15 level of \$662/month/eligible employee to \$880 for FY16 and FY17. The increase in the agency health care contribution rate cannot be absorbed without reducing FTEs. Changes in public gambling patterns have reduced agency revenues by 16.4 % since FY05. This has resulted in loss of 35 actual FTEs while the responsibility to protect the public by keeping gambling legal and honest continues and, furthermore, becomes increasingly challenging in this digital age.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State	350,028	350,028	700,056
Total Cost	350,028	350,028	700,056
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	3.5	3.5	3.5

Package Description:

This decision package requests state General Fund resources to replace 3.5 FTEs displaced by the cost of increasing the agency's share of employee health care benefits from the FY15 level of \$662/month/eligible employee to \$880 for FY16 and FY17. The Gambling Commission is a limited jurisdiction law enforcement agency and the only statewide agency devoted to gambling regulation, licensing and enforcement. It is a non-general fund and non-appropriated agency that receives funding through licensing and regulatory fees paid by licensees and Tribal governments.

The number of organization licensees has decreased by 21% and Commission staff has decreased accordingly by 25.5% in the past 10 years. Revenues from licensed activity have dropped 33% during this time.

For the 2015-17 Biennium, the Commission estimates that revenues will be \$228,871 lower than in the current biennium.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

This decision package would not impact performance outcomes because it provides funds to maintain 3.5 FTEs that would otherwise be eliminated without it.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The work contemplated in the Strategic Plan is predicated on the availability of resources (FTEs) to complete each project. Unfortunately, the Commission is at a point where additional reductions in FTE's will affect the Commission's ability to ensure it effectively meets its public safety mission.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, this request is tied to the Governor's Priority Goal of having Healthy and Safe Communities. The Gambling Commission is a limited jurisdiction law enforcement agency and the only statewide agency devoted to gambling regulation, licensing and enforcement. This decision package is needed to ensure the Commission has sufficient FTEs to meet its public safety mission of ensuring gambling is legal and honest. Unfortunately, the Commission is at a point where additional reductions in FTE's, beyond those currently projected, will affect the Commission's ability to ensure it effectively meets its public safety mission.

What are the other important connections or impacts related to this proposal?

The Commission works with federal, state, local and tribal entities as it pursues its mission of protecting the public by keeping gambling legal and honest. If staffing levels fall below the minimum level needed to do that job, work with these partners will be degraded.

What alternatives were explored by the agency, and why was this alternative chosen?

The only tool available to the Commission to increase revenue is increasing license fees. The Commission is considering a fee increase that could be used to support future statewide COLAs, pay for increased central service charges, bring the Gambling Revolving Fund's working capital balance back to OFM's recommended level, or other cost increases. In light of the number of things that could drive expenses higher and, because there is no alternative but reducing FTEs when that happens, this decision package is the only option available to the Commission. Since 2005, declining numbers of licensees and limitations on increasing fees have acted together to reduce revenues to the Account. In addition, fee increases have had, and will continue to have the effect of causing licensees with marginal activities to surrender their licenses or decrease their license classes, which results in decreased revenue to the Commission. Without legislative adjustment to the revenue generating capacity of the Commission, the Commission will become unable to meet its statutory responsibility and public safety mission to keep gambling in the state legal and honest.

What are the consequences of adopting or not adopting this package?

Failure to fund this package will result in the reduction of 3.5 FTEs for the Commission, and cause it to operate below the minimum level necessary to accomplish its mission.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

The cost of the 3.5 FTEs reduced to incorporate the increase in the health care contribution rate into the Commission's carry-forward level is estimated to be \$350,023 per year. These FTEs are part of the -19.5 and -23.5 FTE reductions for FY16 and FY17 included in the Decision Package titled "Funding Law Enforcement Positions".

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The Commission adjusts its budget each year based upon revised revenues and changes in workload. This decision package is for the 2015-17 Biennium. The Commission's need for state General Fund support beyond that fiscal period will be a function of the resources necessary to effectively meet its public safety mission of protecting the public by keeping gambling legal and honest and revenues available to provide those resources.

Agency: 117 Washington State Gambling Comm
Decision Package Code/Title: N1 Funding Law Enforcement Positions
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

This Decision Package addresses reduced Gambling Revolving Account revenues and the impending depletion of agency Seizure Funds. Although the impact of reduced funding can be partially mitigated by reducing FTE's and relevant operating expenditures, State General Fund monies are imperative to support ongoing criminal intelligence and under-cover operations previously funded by the Gambling Revolving Account. As the types and incidences of gambling-related crimes proliferate, the reduction in gambling revenue will have a devastating impact on the agency's ability to stop illegal gambling and ensure the integrity of gambling in Washington State. The Gambling Commission is a limited jurisdiction law enforcement agency and the only statewide agency devoted to gambling regulation, licensing and enforcement.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State	1,100,088	1,100,088	2,200,176
884-6 Gambling Revolving Account-Non-Appropriated	(1,950,156)	(2,350,188)	(4,300,344)
Total Cost	(850,068)	(1,250,100)	(2,100,168)
 Staffing	 <u>FY 2016</u>	 <u>FY 2017</u>	 <u>Annual Average</u>
FTEs	-8.5	-12.5	-10.5

Package Description:

Background

RCW 9.46 establishes the responsibilities of the Gambling Commission as they relate to the regulation of authorized and enforcement of non-authorized (i.e. illegal) gambling. Funding for regulatory and enforcement activities is typically generated from licensing fees and reimbursement of expenses for Tribal compact administration. RCW 9.46 specifically provides for operational funding by gambling license fees. Finally, the Commission is authorized by the Tribal-State Gambling compacts to be reimbursed for costs related to its regulatory, certification, and gambling laboratory work. Although the Commission participates in the occasional sharing of federal and state asset seizure/forfeiture funds, this type of funding is sporadic. Additionally, any funds received from forfeiture sharing fall under strict spending restrictions and as such are completely unreliable for financial planning purposes.

In FY96, the Gambling Revolving Account revenue totaled \$8,405,815. At that time 84.6% of the total revenue was generated from licensees paying license fees while 15.4% was paid by Tribes.

In FY05, the Gambling Revolving Account revenue peaked at \$14,672,451. 78.8% of that revenue was generated from licensees paying license fees while 21.2% was paid by Tribes. Despite a continual increase in the percentage of revenue derived from tribal cost

reimbursements, the corresponding decrease in license fees has contributed to a steady decline in overall gambling operating revenue to the Gambling Revolving Account. For example, in FY14, the Gambling Revolving Account revenue totaled \$12,267,146. 59.4% of that revenue was generated from traditional non-tribal activities while 40.6% was generated from tribal activities. Between FY05 and FY14, revenue from traditional non-tribal sources dropped 36.9% while corresponding revenues from tribal sources increased 59.8%. During FY09, the Commission received two Federal Equitable Sharing Program distributions totaling \$11.7M. Although these funds have been used to mitigate the negative impacts of reduced Gambling Revolving Account revenues on agency operations, the funds will be depleted by the end of FY 2015 and the prospect of additional forfeitures is speculative.

In addition to the continual decrease in the Gambling Revolving Account revenue, the agency has experienced a correlative decrease in the number of FTEs. In FY05 the agency consisted of 174.4 actual FTEs, with 26.5 of those directly attributed to tribal gaming. In FY14 the number of FTEs decreased to 138.9, of which 26.9 were directly attributed to tribal gaming. In summary, between FY05 and FY14, the agency reduced 35.5 FTEs representing 24.3% (non-tribal) of the total agency FTEs. During the same time frame the number of licensed operators of legal gambling activities dropped from 4,094 to 3,271, representing a 21.1% decrease. Based on this reduction, the agency resources committed directly to criminal intelligence and covert (under-cover) operations necessarily dropped from 16.6 to 12.0 FTEs. However, during this same nine year period, illegal gambling activities and illegal Internet gambling increased significantly due to the proliferation of web-based gambling technology, virtual currency providers and emerging global gambling markets. Despite the overall reduction in FTEs, the number of criminal complaints and criminal investigations has increased. Between calendar year (CY) 2005 and CY2013, criminal investigations increased from 244 to 315 (23%) while the corresponding number of criminal complaints received increased from 175 to 227 (22.5%).

Current Situation

At the beginning of each year the Commission updates Gambling Revolving Account revenue projections based on licensing trends observed during the preceding year. Based on the FY14 trends, the FY15 estimated revenue was reduced \$469,356 (4%) from the previous year's estimate. A mitigating factor in calculating the FY15 projections included \$1.468M in unspent seizure funds, derived from previous investigative efforts. Despite the additional funding, the reduction in FY14 Gambling Revolving Account revenue necessitated the FY15 FTE level be reduced from 138.0 to 134.0 FTEs, composed of 28 tribal activity, 12 criminal intelligence/covert operations, and 94 licensing, legal activities and administration.

Looking forward, the estimated Gambling Revolving Account revenue for the 2015-17 Biennium is projected to decline to \$23,964,028 (\$12,003,514 for FY16 and \$11,960,514 for FY17). However, unlike the previous Biennium, asset seizure and forfeiture funds have been depleted and will no longer be available to mitigate the reduction in gambling revenue. Without additional funding, current projections dictate the number of FTEs would need to be further reduced, from 134.0 to 114.5 (-15%) for FY16 and from 134.0 to 110.5 (-18%) for FY17, to maintain a Working Capital Balance close to \$1.5M, which is actually \$500,000 below OFM's recommended balance. Inasmuch as the tribes reimburse the costs of the 28 tribal activity FTEs, the impact of this reduction would be realized through the reduction of 85 non-tribal FTEs.

From a historical perspective, the last time the Gambling Revolving Account Revenue was below the 2015-17 Biennium projections was during the 1998-99 Biennium when the Gambling Revolving Account revenue was \$23,260,724. However, at that time the revenue supported actual 143 FTEs (11 tribal and 132 nontribal). Given the significant increase in legal and illegal gambling activities affecting the State of Washington, the projected 85 FTEs simply will not have the capability to provide the same level of service to WA citizens provided by 132 FTEs in 1999. As an illustration, consider that between FY05 and FY14, the following FTE reductions have already occurred:

- Licensing Operations FTEs reduced from 53 to 31 (41.5%)
- Field Operations FTEs reduced from 74 to 51 (31.1 %)
- Criminal Intelligence/Covert Operations FTEs reduced from 17.5 to 11 (37.1%)

Proposed Solution

RCW 9.46 places a public safety responsibility on the Commission to protect the citizens of Washington State by ensuring gambling remains legal and honest. Meeting this critical responsibility necessitates an approach that is comprehensive and dynamic. This approach consists of a proactive and reactive component that ensures the effectiveness of all Commission gambling efforts. These efforts include:

- Licensing individuals and organizations engaged in legal licensed gambling activities.

- Regulating licensed individuals and organizations engaged in legal licensed and unlicensed gambling activities.
- Partnering with compacted tribes to ensure the integrity of tribal gambling activities.
- Providing coordinated enforcement of illegal gambling activities.
- Anticipating and deterring illegal gambling activities through the strategic use of criminal intelligence and the proactive use of covert staff.

In light of the 2015-17 Biennial FTE projections, the Commission has concluded that the staff resources currently allocated to licensing functions cannot sustain additional reductions without adversely impacting the timeliness and thoroughness of background investigations, new license issuance, license renewals, which then impacts businesses operations and overall employment.

Using a risk model to help minimize the impact of a staff reduction on the Commission's ability to assure legal and honest operation of gambling activities, staffing will be reduced by 19.5 FTE's in FY16 and 4 more in FY17. The majority of those FTEs will be derived from law enforcement line staff (mainly Agents) involved in the vital task of regulating the work of organizations and individuals licensed to engage in legal gambling activities while enforcing the law against illegal gambling activities. This reduction of critical field operations resources will expose the public to unacceptable risks by severely impacting proactive regulatory efforts to ensure licensed gambling activities are operated legally and honestly.

In an effort to mitigate the impact of declining gambling revenue on the Commission's responsibility to ensure the integrity of gambling within Washington State, the Commission proposes to use state General Fund resources to fund and support the Commission's criminal intelligence and covert operations activities.

Criminal Intelligence & Covert Operations:

The role of criminal intelligence in the prevention of illegal gambling is crucial. For the Commission, the effective use of the intelligence process can mean the difference between success and failure. Intelligence supports a broad range of activities within the Commission, particularly now with the proliferation of global web-based gambling platforms. Although gambling-related information is abundant in today's global community, it is often confusing or contradictory, necessitating the need for qualified Commission staff to transition seemingly unrelated bits of information into actionable criminal intelligence.

The effective use of the criminal intelligence unit and covert operatives is crucial to the Commission's ability to combat criminal groups. The intelligence unit provides the agency with the knowledge and recommendations to allow effective management of its resources via the development of strategic plans to assist in preparing for future challenges.

The development and implementation of any effective intelligence-gathering process necessarily requires the use of Commission staff working in a covert capacity. A covert operation involves the use of Commission staff whose official identify is concealed from the public. Covert staff receive specialized training in the conduct of covert operations, intelligence gathering, use of confidential informants and other specialized areas. Covert operatives' work serves several purposes: gathering gambling-related intelligence; developing gambling-related information into actionable intelligence; and/or surreptitiously investigating criminal complaints without disclosing a law enforcement presence. Covert personnel typically maintain a network of informants and sources of information that can be leveraged to provide information about known or suspected criminal activity. The information provided by this network of sources and informants is critical in the proactive or reactive targeting of criminal elements and their activities. Because of their concealed identity, covert personnel are able to approach criminal suspects and/or infiltrate criminal elements without unnecessarily raising suspicion. Once criminal organizations have been successfully infiltrated, covert operative are able to gather pertinent information about the organizational hierarchy, members and criminal activity. Covert personnel are essential to ensuring that gambling remains legal and honest.

Criminal intelligence necessarily involves the collection, evaluation, collation, analysis, dissemination and re-evaluation of information on suspected criminals and/or criminal elements. One of the preferred mechanisms used to collect and evaluate the viability of this critical information involves the strategic deployment of covert personnel who leverage their sources and informants to confirm the veracity or further develop raw gambling-related information. Using this intelligence model the Commission's criminal intelligence staff provides actionable information resulting in a strategic, proactive response to crime. It also enables the Commission to identify and comprehend the modus operandi of criminal elements operating within or affecting Washington State. Once these criminal elements have been identified and their operational methods determined, the Criminal Intelligence staff can begin assessing current crime trends and forecasting future criminal activities. In essence, criminal intelligence provides the knowledge upon which strategic operational decisions can be made in the selection of appropriate, viable investigative targets. In addition to assisting with investigations, surveillance operations, and the prosecution of cases, they also provide the Commission with the ability to effectively budget, manage resources, and forecast community threats in the furtherance of proactive crime prevention.

Based on this critical need, any staffing reduction below the current 11 FTE level would not only severely hamper the ongoing criminal intelligence mission but would jeopardize the Commission's ability to accurately forecast emerging patterns of gambling-related criminal activity affecting the citizens of Washington State. Supporting this critical criminal intelligence component and the use of covert staff via the state General Fund would ensure the necessary staffing levels are maintained to facilitate continued program viability.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Maintain or increase the number of criminal cases presented for local, state and federal prosecution.

Maintain or increase the number of Information reports submitted directly to the Criminal Intelligence Unit that result in the initiation or furtherance of a criminal investigation.

- - Information reports submitted by Commission staff contain potential intelligence pertinent to future or ongoing criminal investigations. Reports are collected, evaluated, collated, and then analyzed for potential criminal intelligence. Dissemination of any intelligence material is contingent upon its viability and pertinence to the recipient.

Increase the number of strategic and tactical intelligence reports.

- - Strategic intelligence reports provide an informed assessment of the abilities, strengths, weaknesses, and trends of criminal elements along with calculated projections of their future endeavors. Strategic intelligence provides a factual, empirical basis upon which the Commission can make informed decisions on budgets, resources, and policies. Although the ultimate goal of Strategic intelligence is to inhibit or prevent crime altogether, it is the use of tactical intelligence reports that provides factual data collected during investigations and surveillance. Tactical intelligence reports provide field staff with a better understanding of criminal elements, their methods and their activities. Tactical intelligence is utilized to develop methods to counteract immediate criminal threats.

Keep pace with the increasing number of criminal complaints and investigations related to gambling.

Decrease and/or prevent the amount of illegal gambling in Washington State.

Decrease the number of illegal Internet gambling sites targeting Washington State citizens.

Maintain or enhance the ability to collect and validate potential criminal intelligence through the strategic use of covert staff.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The agency mission contemplated in the Strategic Plan is predicated on the availability of sufficient resources to complete each project. Although RCW 9.46 specifies the means by which revenue is to be generated for the dedicated Gambling Revolving Account, it is clear from the declining gambling licensee base that the Gambling Revolving Account can no longer be the sole means of financial support to sustain the level of regulatory and enforcement necessary to fulfill the public safety legislative mandate to ensure gambling is legal and honest.

Since 2005 the declining numbers of licensees and limitations on increasing fees have acted together to reduce revenues to the Account. Additionally, fee increases have had, and will continue to have the effect of causing licensees with marginal activities to

surrender their licenses or decrease their license class, which reduces license fees. Without a corresponding legislative adjustment to augment the Commission's revenue-generating capacity, the Commission will become unable to meet its statutory responsibility to ensure gambling in the state is legal and honest.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, this request is tied to the Governor's Priority Goal of having Healthy and Safe Communities. The Gambling Commission is a limited jurisdiction law enforcement agency and the only statewide agency devoted entirely to gambling regulation, licensing and enforcement. This decision package is needed to ensure the Commission has sufficient funds to meet its statewide public safety mission of ensuring gambling is legal and honest. Without the requisite funding, the Commission will be forced to reduce its current level of regulatory and enforcement activities in contradiction to the level expected by the legislature through the Gambling Act. Unfortunately, the Commission has reached a point where additional reductions in FTEs will severely undermine the Commission's ability to meet its public safety mission.

What are the other important connections or impacts related to this proposal?

From a global perspective, Commission staff are held in extremely high international regard as functional technical experts when it comes to Internet gambling and cybercrime investigation. On an international scale, Commission staff are sought-out to provide collaboration, expertise and training in the areas of web-based crime and cybercrime investigation. This expertise was developed over a period of years. The quantity and high-level of professional investigative case work produced over the past 5 years has been remarkable and is recognized worldwide. If the Commission is to maintain its cutting-edge expertise at the current professional level, it must continue to:

Research and develop relevant state-of-the-art investigative techniques.

Maintain critical partnerships within the local, state, federal and international law enforcement community to facilitate coordination of complex transnational criminal investigations.

Collect, collate, evaluate, analyze and disseminate criminal intelligence to affected parties.

Provide computer and mobile device forensic support along with the accompanying technical expertise.

Develop and implement state-of-the-art technology-related training programs for the law enforcement community.

Maintain strategic affiliations with local, state, federal and international focus groups. As an example of this, the Commission currently co-chairs and is a founding member of an Internet Gambling Task Force composed of local, state, federal and International Law Enforcement Agencies.

Gambling is and will continue to be associated with a myriad of other crimes. On increasing occasions the Commission has encountered gambling-related investigations that involve drugs, prostitution, and other non-gambling crimes. This escalating convergence of gambling and non-gambling crimes has served to escalate the frequency and severity of crime in our communities while underscoring the need to maintain a cadre of qualified, highly-trained staff to mitigate the increase threat to the citizens of Washington State. Gambling is a cash industry and the sheer volume of cash currency generated by gambling makes it a highly coveted target of opportunity. Gambling operations afford unprecedented opportunities for all forms of financial fraud, such as money laundering, bank fraud and wire fraud. Continual developments in computer, mobile device and Internet technology have exponentially increased opportunities for criminals to gain access to the technology and expertise to facilitate a myriad of fraudulent gambling schemes. As computer technology continues to provide a mechanism for the sharing of financial information, these types of crimes will become more prevalent in the gambling industry. Over the past years Commission staff has observed a significant increase in credit card fraud, a form of financial fraud, in Washington State gambling facilities. Money laundering is another of the financial crimes gaining significant momentum. Because gambling is a cash industry, they are particularly susceptible to this type of financial crime. Money laundering typically occurs in a gambling facility where illegal funds can be exchanged for "clean" funds. Gamblers typically provide a large amount of cash for the purpose of purchasing chips. After minimal gambling the chips can then be redeemed into cash as legitimate winnings.

What alternatives were explored by the agency, and why was this alternative chosen?

Without additional financial support, the estimated reduction in revenue to the Gambling Revolving Account along with the

corresponding depletion of Seizure Funds will necessitate a drop in FTEs from 134.0 to 114.5 in FY16 and then to 110.5 in FY17. Staff reductions of this magnitude will substantially impair the Commission's ability to protect the public by keeping gambling legal and honest. Approval of this decision package is the only near-term choice available to preserve the integrity of gambling in Washington State consistent with the legislative mandate.

What are the consequences of adopting or not adopting this package?

Failure to adopt this package would severely hamper the Commission's regulatory and enforcement approach to online gambling and covert law enforcement capability. The Commission's current capability to deter criminals who continually look for opportunities to penetrate the gambling arena in the state of Washington and foist new schemes on its citizens would be substantially reduced. As technological advances continue to be deployed by cybercriminals, Commission staff will lose the capability to meet the cybercriminal threat.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Revenue to the Gambling Revolving Account is projected to be \$229,000 lower in the 2015-17 Biennium than in the 2013-15 Biennium. The Spring 2014 estimated revenue for the 2015-17 Biennium is \$1,141,745 lower than the estimate made in Spring 2013. Seizure funds that have supplemented slumping Gambling Revolving Account revenues for the six years ending June 30, 2015 have been essentially depleted.

For the 2015-17 Biennium, available funds require a reduction of 19.5 and 23.5 FTEs in FY 16 and FY17, respectively, to maintain a working capital balance of approximately \$1.5M. These FTE decreases reduce expenditures by \$1,950,156 for FY16 and \$2,350,188 for FY17. Average costs/FTE for salaries (\$5,120/month), benefits (\$1947/month) and other variable non-payroll costs (\$1,267/month) generate an average annual savings/FTE of \$100,008.

These cost factors are used for the law enforcement positions included in this decision package to restore capability related to criminal intelligence and undercover work critical to the Commission's work to protect the public by keeping gambling in the state of Washington legal and honest.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

These expenditures are ongoing. The declining number of Commission licensees and resulting loss in operating revenue to the Gambling Revolving Account is expected to continue over the next several years. As this occurs, the number of FTEs and other associated gambling services such as licensing, regulating and administrative functions will decline as well. Tribal FTE and related costs will continue to be reimbursed as part of the continuing state role promulgated in the tribal-state compacts by those tribes conducting Class III gaming.

Agency: 117 Washington State Gambling Comm
Decision Package Code/Title: N2 Conducting a Gambling Market Study
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

This decision package requests State General Fund resources to conduct a market study to analyze current and future gambling activities in Washington. A strategic approach would assist the Legislature as they consider potential changes in gambling policy and would assist the Commission in preparing for future industry changes.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State	125,000	0	125,000
Total Cost	125,000		125,000

Package Description:

Background

The Gambling Commission is a non-general fund and non-appropriated agency that receives funding through licensing and regulatory fees paid by licensees and Tribal governments.

The gambling industry has changed significantly since the Gambling Commission was created in 1973. At that time, punchboards/pull-tabs and bingo were the primary gambling activities. These activities now account for less than 4% of the overall net gambling receipts generated in the state. In the last 40 years, many changes have occurred, including federal and state law changes, technological advances, and changes in players' preferences. For example, Congress's passage of the federal Indian Gaming Regulatory Act led to 28 tribal casinos operated by 22 of the 29 federally recognized Tribes. State law changes led to a state lottery and 50 commercial house-banked card rooms. Illegal gambling, including internet gambling, is also a factor that impacts authorized gambling activities in the state.

RCW 9.46 places a public safety mission on the Commission to protect the public by keeping gambling in the state of Washington legal and honest. Meeting these responsibilities requires licensing and monitoring the work of organizations and individuals engaged in legal gambling activities, working with compacted tribes to ensure the integrity of gambling activities offered by tribes, and maintaining vigilant watch to detect and stop organizations and individuals who engage or who attempt to engage in illegal gambling activity.

Looking ahead to the 2015-17 Biennium with fewer FTEs, the Commission has concluded that resources allocated to licensing,

regulatory and enforcement functions cannot sustain additional reductions without adversely impacting licensing activities.

Current Situation

The Gambling Commission is facing serious funding shortfalls due to the fact that the license fee structure developed in 1973 does not reflect the changes in the gambling industry. The Gambling Commission, in an effort to be proactive in its regulatory authority/role believes that a market study would assist the Legislature and the Commission as they consider potential changes in gambling policy and in preparing for future industry changes.

The Gambling Commission does not have the funding to conduct such a study, which is the basis for this decision package.

Proposed Solution

The Commission is proposing to use state General Fund resources to conduct a market study to address the following, which will provide valuable information to the legislature for future revenue sources:

- Where does the money gambled in the state come from and where will it come from in the future;
- How many people are likely to gamble in the state in the future and on what activities;
- What impact will technology have on gambling in Washington;
- What are the market conditions in Washington; and
- What impact will changes in gambling in the surrounding states, from Canada, or changes nationwide and worldwide have on gambling in Washington.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Information from the study would help the Gambling Commission realign staff resources and train staff to be prepared to respond to future changes, as well as provide timely information to the legislature and other decision makers on the future of current gambling activities and the feasibility of new activities.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

A market study is essential to meeting the goal outlined in the agency's strategic plan to provide accurate and timely information about the future of gambling to the legislature, public, and other stakeholders.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes - Prosperous Economy and Efficient, Effective, and Accountable Government. The Gambling Commission is a limited jurisdiction law enforcement agency and the only statewide agency devoted to gambling regulation, licensing and enforcement.

This decision package is needed to determine what gambling may look like in the future, which directly impacts the revenues available to the Commission to meet its public safety mission of ensuring gambling is legal and honest.

What are the other important connections or impacts related to this proposal?

Information gained from the market study would be provided to the legislature and other decision makers. The study would have a

primary impact of providing information to assist in shaping the landscape of legal gambling in the State of Washington.

What alternatives were explored by the agency, and why was this alternative chosen?

The Commission is considering a fee increase that could be used to support future statewide COLAs, pay for increased central service charges, bring the Gambling Revolving Fund's working capital balance back to OFM's recommended level, or other cost increases. The Gambling Commission simply does not have the funding to conduct such a study, which is the basis for this decision package.

What are the consequences of adopting or not adopting this package?

The Legislature and Commission will not have current information on the impacts of changes occurring with gambling in neighboring states and nationwide and what gambling in Washington may or could look like in the future. This information can be used in estimating future state and Commission revenues, planning staff training and aligning resources in the proper areas to meet the public safety mission of keeping gambling legal and honest.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

\$125,000 is being requested for the market study and related administrative expenses.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are one-time expenditures that would occur in FY16. There would be no budget impacts for future biennia.