



Washington State Gambling Commission

Protect the Public by Ensuring that Gambling is Legal and Honest.

December 10, 2024.

To: Pat Sullivan, Director of Office of Financial Management

From: Tina Griffin, Executive Director

Subject: BUDGET REDUCTIONS FOR FISCAL YEAR 2025 and 2025-2027 BIENNIUM

In response to your letter of November 8, 2024, the Gambling Commission's planned response is outlined in this memorandum.

The Gambling Commission operates from the gambling revolving account, RCW 9.46.100. Receipts into the gambling revolving account are from license fees and reimbursement of actual costs to regulate gambling under the Tribal-State Compacts. Disbursements from the gambling revolving fund are based on the authorization of the commission. The Gambling Commission does not generate revenue for or receive appropriations from the General Fund. Any reductions in the Gambling Commission's expenditures will not impact the General Fund.

As the sole state agency responsible for licensing, regulating, and enforcing the Gambling Act, our programs all relate to public safety. We will explore the following areas for potential savings:

- Reduce in-person training attendance and associated travel that is not necessary to carry out the core functions of the agency or a position, and
- Assess contracts for goods and services to ensure they are necessary to carry out the core functions of the agency.

In the past during dire financial times, the Legislature has sometimes swept funds from the gambling revolving account. While the effects of a sweep of our funds is always concerning, the impact of a sweep of the gambling revolving fund this year would be far-reaching, and would likely result in the following:

- Failure to replace our legacy IT systems, which could result in a shutdown of the agency's operations.

This project is under the oversight of WaTech. We have recently signed a contract with an implementor and identified the product licenses to purchase. Additionally, we have a contract with a Quality Assurance provider for the

duration of the project and will be engaging an Organizational Change Management Consultant and a tester for the project. We are obligated to these costs, but they will not be fully realized until the end of the project. These costs, plus the ongoing costs of licensing and maintenance agreements for the system, will not be fully realized until the end of the project. The project is on track to go-live by January 2026.

Our licensing, case reporting, external secure site for our Tribal partners and licensees, time keeping, and billing systems are well-beyond end of life. IT staff who maintain these systems are due to retire within the next year, leaving no one with the expertise to maintain these legacy systems. Failure to complete our project to replace these systems would be catastrophic for the ongoing operations of the agency.

It has taken us several years to save enough money to replace these systems. A sweep of funds would prevent us from replacing these systems for many years. Our current systems will not be able to sustain our operations into the future.

- Failure to meet current obligations and carry out our legislative mandate.

License fees are based on gross gambling receipts, and gambling activity is unpredictable. License fees are collected the month following the end of a quarter. We rely on our fund balance to carry us through the months in which we don't receive revenue and during those times that gambling activity is down. Sweeping funds from the gambling operating fund could leave the agency with a shortfall because gambling activity fluctuates with external factors such as the weather and the economy.

- Increased license fees to recoup the funds necessary to operate.

The Gambling Commission is required to set annual license fees (RCW 9.46.070(5)). Because of rule-making timelines and because fees can only be adjusted on an annual basis, it takes at least 18 months to increase and collect one year of increased license fees. Reductions of our fund balance may not provide us with the funds necessary to operate while we seek to increase license fees.

The gambling revolving fund includes cost reimbursements for the actual and reasonable costs of regulating the Class III Tribal-State Compacts. A sweep of funds from the gambling revolving account would include taking these tribal cost reimbursements.

- Inability to pay increases to mandated central service costs and legislative increases in salaries and benefits.

As a self-funded agency, we must ensure that we have the necessary funds to pay for the unexpected increases in mandated central service costs, increased salaries and benefits, and other mandatory costs for our agency.

If you have any questions, please contact me at Tina.Griffin@wsgc.wa.gov or our Chief Financial Officer Kriscinda Hansen at Krisinda.Hansen@wsgc.wa.gov.