

**House Gaming Oversight Committee and
Senate Community, Economic & Recreational Development Committee
Testimony
Eileen McNulty, Secretary
Pennsylvania Department of Revenue
May 17, 2016**

Chairman Payne, Chairwoman Ward, Chairman Kotik, Chairman Farnese and members of the House Gaming Oversight and Senate Community, Economic & Recreational Development Committees, thank you for the opportunity to submit remarks today concerning the role of the Department of Revenue in collecting the administrative assessments on casinos required by statute. Joining me is Christin Heidingsfelder, the department's Deputy Secretary of Administration.

The Department of Revenue has a limited role under Title 4. Our responsibilities are confined to collecting and distributing taxes and fees and maintaining the Central Control Computer System which allows the department and the Pennsylvania Gaming Control Board to monitor the activity of every slot machine in the state, as required by law.

Title 4 provides administrative responsibilities for the Pennsylvania Gaming Control Board, Pennsylvania State Police, Attorney General and Department of Revenue. Further, under Chapter 14, the law requires the slot machine licensees to reimburse the commonwealth for the cost of performing those duties. Section 1401 provides for each licensee to have a special account at the Treasury Department, commonly referred to as a 1401 account. A fixed amount is maintained in each licensee's 1401 account to provide for administrative expenses as well as sums necessary to repay loans made from the General Fund.

The budget process is determined under Section 1402 of Title 4. As required by the statute, the department, board, state police and Attorney General submit annual itemized budgets for their expenses to the Appropriations Chairmen of the House and Senate. In addition, a copy of each budget is provided to the Pennsylvania Gaming Control Board for review and to make recommendations to the Legislature.

The Legislature enacts and the Governor signs separate appropriations for each of the four gaming oversight agencies. Based on the enacted budget, the Department of Revenue assesses the 1401 accounts for the total amount of the appropriations and distributes the appropriated funds to each of the four agencies. The department's role is to collect these funds from the 1401 accounts of the licensees and distribute those funds to the four agencies with gaming responsibilities. We have no authority to oversee the use of the budgeted funds by other agencies.

The portion of the appropriation assessed to each casino is based on their share of the total gaming revenues generated by all the licensees. The percentage rate of the regulatory assessment is calculated by dividing the total of the appropriations by the total estimated gaming revenues.

As with any budgeting process, there is an annual reconciliation of budgeted amounts to actual expenses. That process results in unused appropriated funds from the prior year being carried into the next fiscal year. In past years, the unspent budgeted amounts that were carried forward were substantial enough to maintain the regulatory assessment rate at 1.5 percent of revenues generated, despite increasing costs for some agencies. By fiscal year 2012-13, the amount carried into the fiscal year reached \$35.4 million, or more than 63 percent of the amount required to meet the four appropriations for that fiscal year. The department suspended the regulatory assessment for the months of May and June in 2013 to reduce the accumulation of funds that would be carried forward into fiscal 2013-14 by \$10 million.

Since fiscal year 2012-13, the 1.5 percent assessment has not been sufficient to fund the four agency budgets at the appropriated amounts. Rather, the accumulated amount carried forward from prior years was being used to offset portions of the appropriated budgets, enabling the regulatory assessment to remain unchanged despite budget increases. For the current fiscal year, almost 20 percent of the funding for the four agency budgets was derived from funds collected in advance during prior years. (\$71.3 million in appropriations are being funded from \$57.3 million in regulatory assessments at 1.5 percent and \$14 million in funds carried forward from prior years.)

Those funds have now been depleted and the regulatory assessment must be adjusted to reflect current costs. When we reviewed the budget forecasts in February it was determined that at the current assessment rate of 1.5 percent, there would be an estimated negative balance of \$9.4 million by the end of fiscal year 2016-17. The rate of the assessment needed to be adjusted for the fiscal 2016-17 budgets. The rate of 2.0% was calculated as described above.

The Department of Revenue's gaming budget request has remained flat since fiscal 2013-14 and is declining as a share of the overall budgets. For fiscal year 2016-17, the department's portion of the gaming regulatory budgets is 12.8 percent or \$9.513 million of the \$74.1 million in total appropriations proposed to regulate the industry. The Pennsylvania Gaming Control Board portion of the total budget is 47 percent or \$34.864 million. The Pennsylvania State Police portion is 38.4 percent or \$28.491 million. The Attorney General portion is \$1.2 million or 1.7 percent.

The Department of Revenue's budget request for fiscal 2016-17 includes \$2.2 million in personnel costs. Our gaming complement includes seven fiscal management positions to

handle the assessments for gaming taxes and statutory assessments as well as regulatory assessments and refunds of gaming promotional expense deductions. Our audit staff of five positions performs audits of the 12 licensed gaming venues. Seven positions provide pre-licensure compliance reviews of gaming licensees and six positions provide IT support for the Central Control Computer System. The 2016-17 budget request continues funding for these 25 authorized positions amounting to \$2.2 million. Additionally the budget requests \$7.3 million in operating costs which is primarily the cost of the CCCS.

When preparing the fiscal year 2016-17 budget we kept our request level with the prior fiscal year. Although we were anticipating reduced costs for the CCCS contract with GTech, we had been unable to estimate what the reduction would be at that time. The prior contract was a flat rate of \$535,000 per month. The new contract is based on the number of slot machines connected to the system after the cutover to the upgraded CCCS. While the contract was effective in August of 2014, the billing continued at the flat rate until the slot machines were able to be connected to the upgraded system which did not come online until spring 2015. Since the budget was presented, we have estimated reduced costs for GTech services under the new contract. We will revise our budget request accordingly and provide that information to the Appropriations Committees and the PGCB.

In summary, funds collected in advance have been used to cover costs since fiscal year 2012-13. The department is aware that funding regulatory costs represents an additional expense to the licensed casinos. We plan to update projections and review the assessment rate again later in the fiscal year to include more updated information. Going forward our approach will be to more closely align the assessment to current levels of expenditures and maintain a reasonable balance to avoid the need to make frequent revisions to the assessment rate.

I would like to thank the chairs and the members of the committees for providing an opportunity for us to address this important matter and welcome the opportunity to answer any questions you may have.