

MEMORANDUM



DATE: April 2, 2012
TO: Interested Parties
FROM: Ben Gielczyk, Senior Fiscal Analyst
RE: State Services Fee Fund [UPDATED]

This memo provides information on the State Services Fee Fund, its sources of revenue, the annual appropriations from the fund, and issues with the divergence in revenues and appropriations.

State Services Fee Fund Overview

The State Services Fee Fund was created within the Department of Treasury by Public Act 69 of 1997, the Michigan Gaming Control and Revenue Act, and is administered by the Michigan Gaming Control Board. Distributions from the State Services Fee Fund may only be made by the Legislature through the appropriations process. The State Services Fee Fund receives revenue from an annual assessment on each of the three Detroit Casinos as well as application, license, and other (fines and penalties) fees paid by the casinos, suppliers, and employees.

Beginning in 1997, the amount of the assessment on each of the three Detroit casinos is equal to one-third of \$25.0 million adjusted annually by multiplying the previous year's assessment by the Detroit consumer price index. In Fiscal Year (FY) 2011-12, this amount totaled \$31.7 million. The balance of the State Services Fee Fund is not to exceed \$65.0 million. If the amount of fees collected causes the balance of the Fund to exceed the limit, the surplus of funds is required to be credited in equal shares against each casino licensee's annual assessment. To this date, the amount in the fund has never exceeded this threshold.

According to statute, all casino-related regulatory and enforcements costs, compulsive gambling programs, and other casino-related programs, activities, and services performed by the Michigan Gaming Control Board, the Michigan State Police, the Department of Attorney General, Department of Community Health, and other state agencies shall be paid from the State Services Fee Fund. More specifically, \$2.0 million from the State Services Fee Fund must annually be deposited in the state's Compulsive Gaming Prevention Fund. Of that amount, \$1,040,000 may be distributed to the Domestic Violence and Treatment Board in the Department of Human Services and \$960,000 shall be used for treatment, prevention, education, training, research, and evaluation of compulsive gamblers as determined by the Department of Community Health.

State Services Fee Fund Revenue Sources

The following are the direct revenues to the State Services Fee Fund for Fiscal Year (FY) 2011-12 which totaled **\$32.8 million**:

- **Annual assessment fee** paid by all operating Detroit casinos. The total amount which is indexed to the Detroit CPI is divided equally between the three casinos: **\$31.7 million**

- **Application, License, and Other Fees** paid by casinos, suppliers and employees: **\$1.1 million**

For FY 2011-12 the total projected amount of direct revenues into the SSFF is \$32.8 million. Direct revenues have not grown dramatically since FY 2009-10 due to their dependence on the Detroit CPI which has remained relatively flat since that time.

In recent years, the State Service Fee Fund has maintained an unencumbered balance, but that balance has been steadily declining due to appropriations exceeding direct revenues (a situation that will be discussed below). The unencumbered balance at the close of FY 2009-10 was **\$4.9 million**. The projected State Services Fee Fund balance at the close of FY 2010-11 is **\$7.3 million**.

State Services Fee Fund Distribution

Expenditures from the State Services Fee Fund include the MGCB administration costs, Michigan Gaming Control Board (5 appointed members) costs, an annual transfer to the Compulsive Gaming Prevention Fund, and services provided by Civil Service and the Departments of Agriculture, Information Technology, Legislative Auditor General, State Police, Technology, Management and Budget, and Treasury. The breakdown for FY 2010-11 is as follows:

FY 2011-12 (Appropriated)

Compulsive Gaming Prevention Fund (DCH/DHS)	\$2,000,000
Michigan Gaming Control Administration	20,999,500
Michigan Gaming Control Board	50,000
Information Technology	1,524,700
Civil Service	142,700
Department of Auditor General	952,100
Michigan State Police	10,254,100
Department of Treasury	<u>357,900</u>
Total	\$36,281,000

As is noted above, total appropriations from the State Services Fee Fund in FY 2011-12 are projected to total \$36.3 million. Total direct revenues into the fund in FY 2011-12 are estimated to total \$32.8 million. Therefore, appropriations are expected to exceed direct revenues by approximately \$3.5 million. The shortfall in revenues would be supplemented with a portion of the \$7.3 million beginning unencumbered fund balance in FY 2011-12.

However, with appropriations anticipated to exceed direct revenues again in FY 2012-13 by approximately \$5.1 million and an expected unencumbered balance at the start of FY 2012-13 of \$3.9 million, appropriations from the State Services Fee Fund will leave a FY 2012-13 year-end negative fund balance of \$1.2 million.¹

Without an increase in direct revenues enough to match annual appropriations from the fund, appropriations from the State Services Fee Fund would need to be reduced in future years. Estimates of the Detroit CPI for FY 2011-12 and FY 2012-13 show a growth rate of 2.3% in FY 2011-12 and 1.8% in FY 2012-13. As a result, direct revenues into the State Services Fee Fund should increase in FY 2011-12 and 2012-13 by a

¹ Anticipated work projects totaling \$910,000 in FY 2012-13 would increase the negative fund balance to \$2.2 million.

corresponding amount. Despite these increases, it is unlikely direct revenues will support current and ongoing appropriation levels. The following table represents projected figures for FY 2011-12 and FY 2012-13:

	FY 2012	FY 2013 (Projected)
Beginning Balance	\$7,332,800	\$3,851,800
Revenue	32,800,000	33,300,000
Appropriations	36,281,000	38,395,200
Ending Balance	\$3,851,800	(\$1,243,400) ²

² Does not include anticipated FY 2012-13 work projects totaling \$910,000. See footnote 1.