

DATE: May 12, 2015
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 (SSFF), its sources of revenue, the annual appropriations from the fund, and issues with the recent divergence in revenues and appropriations.

State Services Fee Fund Overview

The SSFF was created by Public Act 69 of 1997, the Michigan Gaming Control and Revenue Act, and is administered by the Michigan Gaming Control Board (MGCB), a five person appointed board. Distributions from the SSFF may only be made by the Legislature through the appropriations process. The SSFF receives revenue from an annual assessment on each of the three Detroit Casinos as well as application, license, and other fees (fines and penalties) paid by the casinos, suppliers, and employees.

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 immediately preceding year's assessment by the immediately preceding year's Detroit consumer price index. In Fiscal Year (FY) 2013-14, this amount totaled \$33.2 million, or \$11.1 million per casino. Statutorily, the balance of the SSFF cannot exceed \$65.0 million. If the amount of fees collected causes the balance of the SSFF 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.

Under statute, all casino-related regulatory and enforcements costs, compulsive gambling programs, and other casino-related programs, activities, and services performed by the MGCB, the Michigan State Police, the Department of Attorney General, the Department of Community Health (DCH), and other state agencies are to be paid from the SSFF. Statute also specifies that \$2.0 million from the SSFF 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 is to be used for treatment, prevention, education, training, research, and evaluation of compulsive gamblers as determined by the DCH.

State Services Fee Fund Revenue Sources

The following represent direct revenues to the SSFF for Fiscal Year (FY) 2013-14 which totaled **\$34.8 million**:

- **Annual assessment fee** paid by all operating Detroit casinos: **\$33.2 million**
- **Application, License, and Other Fees** paid by casinos, suppliers and employees: **\$1.6 million**

For FY 2014-15, projected direct revenues into the SSFF total \$34.8 million.

Between FYs 2010-11 and 2012-13, the unencumbered balance increased due to fewer than expected expenditures by the MGCB. However, the balance is projected to steadily decline due to appropriations exceeding direct revenues (a situation that will be discussed below). The unencumbered balance at the close of FY 2013-14 was \$6.7 million. The projected SSFF balance at the close of FY 2014-15 is \$5.3 million.

State Services Fee Fund Distribution

Expenditures from the SSFF include the MGCB administration costs, MGCB member reimbursement costs, the annual transfer to the Compulsive Gaming Prevention Fund, and services provided by Civil Service and the Departments of Agriculture, Legislative Auditor General, State Police, Technology, Management and Budget, and Treasury. The breakdown for FYs 2013-14 and 2014-15 is included in **Table 1**.

**TABLE 1
State Service Fee Fund Expenditures
FY 2013-14 and FY 2014-15**

<u>Appropriation</u>	<u>FY 2013-14</u>	<u>Projected FY 2014-15</u>
Compulsive Gaming Prevention Fund (DCH/DHS)	\$2,000,000	\$2,000,000
Michigan Gaming Control Administration*	18,598,000	21,117,000
Michigan Gaming Control Board	5,900	40,000
Information Technology	1,777,300	1,861,400
Civil Service	177,300	177,300
Department of Auditor General	1,272,600	1,304,800
Michigan State Police	11,605,200	7,990,900
Department of Treasury	296,700	322,700
IT Services and Projects (one-time)	0	700,000
Work Projects	<u>867,500</u>	<u>721,800</u>
TOTAL	\$36,600,500	\$36,235,900

Total appropriations from the SSFF in FY 2014-15 are projected to total \$36.2 million. Total direct revenues into the fund in FY 2014-15 are estimated to total \$34.8 million. Therefore, appropriations are expected to exceed direct revenues by approximately \$1.4 million. The shortfall in FY 2014-15 revenues can be supplemented with a portion of the \$6.7 million unencumbered fund balance from FY 2013-14.

Projections for FY 2015-16 and 2016-17 show a relatively flat unencumbered balance for the SSFF. Expenditures and transfers out of the fund are projected to closely match direct revenues into the fund. **Table 2** provides projected year-end SSFF fund balances.

**TABLE 2
Year-end Projected State Services Fee Fund Fund Balance
FY 2014-15 through FY 2016-17**

<u>Year</u>	<u>Fund Balance</u>
FY 2014-15	\$5,282,000
FY 2015-16	5,289,600
FY 2016-17	5,291,700