

**DATE:** October 1, 2013  
**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) 2012-13, this amount totaled \$32.6 million, or \$10.9 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) 2012-13 which totaled **\$34.1 million**:

- **Annual assessment fee** paid by all operating Detroit casinos: **\$32.6 million**
- **Application, License, and Other Fees** paid by casinos, suppliers and employees: **\$1.5 million**

For FY 2012-13 the total projected amount of direct revenues into the SSFF is \$34.1 million.

Between FYs 2009-10 and 2011-12, 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 2011-12 was \$8.6 million. The projected SSFF balance at the close of FY 2012-13 was \$8.2 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 2012-13 and 2013-14 is as follows:

<u>Appropriation</u>	<u>FY 2012-13</u>	<u>Projected FY 2013-14</u>
Compulsive Gaming Prevention Fund (DCH/DHS)	\$2,000,000	\$2,000,000
Michigan Gaming Control Administration*	17,887,000	19,954,500
Michigan Gaming Control Board	40,000	40,000
Information Technology	1,620,600	1,697,700
Civil Service	165,500	165,500
Department of Auditor General	1,152,400	1,272,600
Michigan State Police	11,254,400	11,666,600
Department of Treasury	316,500	329,000
<b>TOTAL</b>	<b>\$34,436,400</b>	<b>\$37,125,900</b>

Total appropriations from the SSFF in FY 2012-13 are projected to total \$34.4 million. Total direct revenues into the fund in FY 2012-13 are estimated to total \$34.1 million. Therefore, appropriations are expected to exceed direct revenues by approximately \$361,400. The shortfall in revenues would be supplemented with a portion of the \$8.6 million beginning unencumbered fund balance in FY 2012-13.

However, with appropriations anticipated to exceed direct revenues again in FY 2013-14 by approximately \$2.8 million and an expected unencumbered balance at the start of FY 2013-14 of \$8.2 million, appropriations from the SSFF will leave a FY 2013-14 year-end fund balance of \$5.4 million. Furthermore, future projections anticipate expenditures exceeding revenues which will lead to a diminished unencumbered fund balance.

Without an increase in direct revenues sufficient to match annual appropriations from the fund, appropriations from the SSFF may need to be reduced in future years. Estimates of the Detroit CPI for FY 2012-13 and FY 2013-14 show a growth rate of 1.78% in FY 2012-13 and 1.76% in FY 2013-14. Direct revenues into the SSFF should increase in FY 2013-14 and 2014-15 by a corresponding percentage. Despite these increases, it is unlikely direct revenues will support current and ongoing appropriation levels. The following table represents projected figures for FY 2012-13 and FY 2013-14:

	<u>FY 2013</u>	<u>FY 2014 (Projected)</u>
<b>Beginning Balance</b>	\$8,570,300	\$8,208,900
<b>Revenue</b>	34,075,000	34,290,100
<b><u>Appropriations</u></b>	<u>34,436,400</u>	<u>37,125,900</u>
<b><i>Annual Shortfall</i></b>	<i>(361,400)</i>	<i>(2,835,800)</i>
<b>Ending Balance</b>	\$8,208,900	\$5,373,100

