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March 13, 1998

Hon. Daniel E. Lungren
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Connie Lemus

Dear Attorney General Lungren:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative constitutional amendment entitled "The Gaming Control Act of 1998" (File No. SA 98 RF 0007). The measure amends the California Constitution, the Business and Professions Code, and the Penal Code to authorize certain types of casino-style gambling and wagering. As Section 9005 directs, our review addresses the potential effects of the measure on state and local government revenues and costs.

BACKGROUND

Under existing law, card games of skill, not of chance, are allowed to be played in card rooms that are approved, licensed, and taxed by local jurisdictions. These card rooms also must be licensed by the Attorney General's Office and the California Gambling Control Commission.

Existing law prohibits (1) games of chance and wagering that comprise what is commonly referred to as casino-style gambling (such as roulette, craps, blackjack, and slot machines) and (2) progressive jackpots (where part of each card game's "pot" of winnings is carried over to successive games).

Regulation

Under current law, local jurisdictions have primary control over card room regulation and taxation. Local ordinances set hours of operation, table size and number, and wagering limits. Under current law, there is a moratorium on establishing and expanding card rooms until January 1, 2001.

The Attorney General and the California Gambling Control Commission are responsible for licensing card room owners and most employees, investigating suspected violations of the Gambling Control Act, granting approval of games, and assessing fines for violations of the act.

Taxation and Fees

Taxation of gambling revenue varies according to jurisdiction. The most common forms of local taxation on legalized gambling are: (1) business license taxes based on a sliding scale of gross receipts and (2) flat per-table fees. The percentage of gross revenues that local jurisdictions currently receive from card rooms varies from 2 percent to 15 percent. A few jurisdictions do not tax gambling revenues.

PROPOSAL

Legalized Gambling

This measure (1) authorizes up to 3,000 pari-mutuel video gambling machines (defined as "California-style gaming") in the City of Palm Springs (Riverside County), (2) authorizes progressive jackpots, and (3) repeals the existing moratorium on new and expanded card rooms. The City of Palm Springs has approved the establishment of 500 card game tables. These tables could be put in operation with the repeal of the moratorium.

Regulation

This measure does not preempt local government control over card rooms. It repeals the current state regulatory act and enacts essentially the same regulatory structure.

Fees and Taxation

The measure does not change local taxes and fees on card rooms. The measure imposes a 10 percent gross revenue tax on the City of Palm Springs' video gambling machines. These funds would be distributed on a statewide basis for support of local pub-

lic safety functions (in the same fashion as Proposition 172 funds are currently allocated).

Indian Gambling

The measure does not address Indian gambling. Existing federal law (the Indian Gaming Regulatory Act of 1988) authorizes Indian tribes to operate any gambling that is otherwise legal in the state for any purpose, subject to a negotiated agreement with the state. Thus, the expanded games and wagering authorized under the measure could also be allowed at Indian gambling establishments. Currently, agreements for off-track horse racing betting and certain lottery games have been negotiated between the state and certain Indian tribes.

STATE AND LOCAL FISCAL EFFECTS

State and Local Tax Revenue

The effect of the measure on total state and local tax revenue would depend primarily on the extent to which gambling increases in California as a result of this measure and the source of any new spending.

For example, tax revenues could increase substantially if the measure were to result in a significant increase in gambling in California and a large portion of this gambling is spending that would have otherwise occurred outside of California (such as in Nevada).

On the other hand, if the new gambling resulting from the initiative were relatively limited or if most of the new gambling represented spending that was diverted from other areas in the local economy, the revenue gains would be smaller.

In the longer term, the measure could result in a significant increase in economic activity and tax revenues in California. This would occur if over time there is a large diversion of gambling activity from other states to California.

Local Impacts. The measure's impacts on individual local governments would vary significantly. For instance, it would increase economic activity and tax revenue in Riverside County if gambling attracted business from outside the area. The same would be true for counties which experienced increased card room or Indian gambling. (Although in the latter instance the positive revenue impact would be less, as economic activity on Indian lands is generally not taxed.)

Gross Revenue Tax. The 10 percent gross revenue tax on the Palm Springs' video gambling machines could result in tax revenues in the low tens of millions of dollars for added support of local public safety functions.

Local Enforcement Costs

Depending on the level of gambling activity, the measure could result in increased local law enforcement costs. The magnitude of these costs is unknown.

SUMMARY OF FISCAL EFFECTS

This measure would have the following major fiscal effects:

- Potential significant increases in annual state and local government revenues to the extent there is a large diversion of gambling activity from other states to California.
- Local revenues for public safety functions could increase by up to tens of millions of dollars annually from gross revenue tax on video gambling machines in Palm Springs.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Craig L. Brown
Director of Finance