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January 7, 2000

Hon. Bill Lockyer  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Diane Calkins  
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative constitutional amendment entitled the "People's Gaming Act" (File No. SA 1999 RF 0065). The initiative amends the State Constitution to legalize Las Vegas- and Atlantic City-type gambling in California City in Kern County and on one Indian reservation for a period of 28 years. As Section 9005 directs, our review addresses the potential effects of the initiative on state and local government costs and revenues.

**MAJOR PROVISIONS OF THE INITIATIVE**

The initiative amends the State Constitution to provide Las Vegas- and Atlantic City-type gaming only in California City and one Indian reservation (to the exclusion of all other cities, counties, and Indian reservations in California) for a period of 28 years. The single Indian reservation would be selected by a majority vote of all California Indian tribes recognized by the federal Bureau of Indian Affairs. After 28 years, the Legislature could either extend Las Vegas- and Atlantic City-type gaming to all cities, counties, and Indian reservations in California or eliminate it.

Existing federal law (the Indian Gaming Regulatory Act of 1988) authorizes Indian tribes in any state to operate any gambling games that are otherwise legal in the state for any purpose, subject to a negotiated agreement with the state. It is not clear whether federal law permits the state to limit Indian gaming to a single site.

The initiative establishes the People's Gaming Act Commission, a three-member body appointed by the Governor. This state commission would regulate gaming and issue gaming permits. Each permittee would be required to pay an annual fee in an amount to be determined by the Legislature. Current federal law limits fees assessed by the state against Indian tribes to the costs of regulating the gaming activities. The fee revenue would be deposited in the state General Fund. The commission could appoint as many employees as necessary to carry out the provisions of the initiative.

This proposal also requires California City to provide a full-time, three-member commission for screening, investigating, and licensing applicants for a gaming license, as well as supervising gaming within the city and establishing licensing fees. The Indian reservation would govern itself with respect to these matters. All gaming establishments would be licensed by either California City or the Indian reservation, and granted a permit from the People's Gaming Act Commission.

## FISCAL EFFECT OF THE INITIATIVE

### Effects on State Government

*Impact on State Revenues.* This initiative could result in additional state revenues, potentially in the tens of millions of dollars annually, from income and sales taxes once gaming facilities are established. The amount would depend on the increase in economic activity associated with the initiative, including the degree to which Californians shift their gaming activities from Nevada to California. Also, the impact of this initiative on state revenues would be significantly reduced if Proposition 1A on the March 2000 ballot is approved by the voters.

These increased revenues would be partially offset to the extent that increased Las Vegas- and Atlantic City-type gaming activities replace other forms of gaming currently available in California, such as the lottery and horse racing. Also, revenues generated from gaming on reservations would be less than for comparable operations situated elsewhere because Indian tribes are exempt from certain taxes. For example, if casinos are run by an Indian tribe, any profits attributed to tribal business activities would not be subject to state income taxes.

*Impact on State Regulatory Costs.* This initiative would result in costs to the state General Fund of up to several million dollars annually to support the regulatory activities of the People's Gaming Act Commission. Presumably, these costs would be offset by permit fees charged to gaming establishments.

### **Effects on Local Government**

This initiative could significantly increase revenues for California City, potentially in the millions of dollars annually, primarily from locally imposed fees and taxes associated with Las Vegas- and Atlantic City-type gaming activities. These revenues could more than offset regulatory costs associated with the three-member city commission.

In addition, surrounding local governments could receive increased revenues from taxes relating to secondary economic activity in their areas resulting from the gaming operations. The level of increase is unknown, but potentially in the millions of dollars annually.

### **SUMMARY**

This initiative could result in revenues to the state and local governments—potentially in the tens of millions of dollars annually—from fees and taxes associated with Las Vegas- and Atlantic City-type operations and other related economic activity.

Sincerely,

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Elizabeth G. Hill  
Legislative Analyst

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B. Timothy Gage  
Director of Finance