

CHAIR
STEVE PEACE

VICE CHAIR
DENISE MORENO DUCHENY

SENATE

MAURICE K. JOHANNESSEN
PATRICK JOHNSTON
TIM LESLIE
JACK O'CONNELL
RICHARD G. POLANCO
JOHN VASCONCELLOS
CATHIE WRIGHT

ASSEMBLY

ROY ASHBURN
TONY CARDENAS
JIM CUNNEEN
FRED KEELEY
CAROLE MIGDEN
GEORGE RUNNER
RODERICK WRIGHT

October 20, 2000

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

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative entitled "The People's Gaming Act" (File No. SA2000RF0025). The measure amends the California Constitution to legalize Las Vegas and Atlantic City style gambling in California. As Section 9005 directs, our review addresses the potential effects of the measure on state and local government revenues and costs.

BACKGROUND

Authorized Gambling in California. Except for gambling on Indian lands, the State Constitution and various state laws limit gambling in California to horse racing, charitable raffles and bingo, nonbanked and nonpercentage card games, and the California State Lottery.

The State Constitution allows Indian tribes to conduct and operate slot machines, lottery games, and banked and percentage card games on Indian land if the tribe has entered into a gambling compact with the State of California. To date, 60 tribes have signed gambling compacts.

Regulation of Gambling. Gambling activities are regulated to varying degrees by the state and local governments. The state regulates non-Indian operated gambling

activities and has limited regulatory authority over gambling activities on Indian lands. Local governments have the authority to determine if card rooms can operate in their jurisdictions as well as establish operating parameters for the card rooms.

The state receives annual revenues totaling hundreds of millions of dollars from non-Indian gambling operations, primarily from the State Lottery. In addition, under the current tribal-state compacts, we estimate that beginning in 2002 the state will receive tens of millions of dollars each year from Indian-operated gambling.

PROPOSAL

This initiative amends the State Constitution to permit Las Vegas and Atlantic City style gambling (such as slot machines and banked and percentage games played with cards, dice, or any other device) in California. The initiative directs the Legislature to pass all necessary laws to regulate these gambling activities and to give local jurisdictions control (through a vote of the local electorate) over whether or not this gambling can occur within the jurisdiction. The initiative establishes a three-member People's Gaming Act Commission to regulate these gambling activities. Members are to be appointed by the Governor for four-year terms. All costs of the commission and its employees are to be paid from the state General Fund.

Effect on Gambling on Indian Land. Under the Federal Indian Gaming Regulatory Act, a state must negotiate in good faith for a compact with any tribe that wants to engage in gambling activities that are legal within the state. Since this initiative would legalize all forms of Las Vegas and Atlantic City style gambling in California, tribes could, subject to a tribal-state compact, operate similar activities on Indian lands.

FISCAL EFFECTS

State and Local General Tax Revenues

The initiative's fiscal impact would depend on the extent to which gambling operations expanded throughout the state as a result of the initiative's passage. This would occur primarily as a result of gambling activity being diverted from Nevada (and other out-of-state sources) and from Indian gambling operations in the state.

Increased gambling would result in increased economic activity through the development of gambling establishments and ancillary activities such as restaurants and hotels. This increased activity—in the form of jobs, sales of taxable goods, and construction—would translate into higher state and local tax revenues. The state would also experience increased tax revenues to the extent gambling shifted from Indian gambling to non-Indian gambling, as the former is largely exempt from taxation. We esti-

mate that total annual revenues to the state and local governments could increase by hundreds of millions of dollars as a result of this initiative. In addition, the state currently taxes most existing gambling activities. Thus, the state could receive additional tax revenues to the extent the Legislature established taxes on the gambling activities authorized under this initiative.

State Regulatory Costs

The state would incur costs for regulatory activity associated with the initiative. These costs would vary depending on the number and size of gambling establishments but could reach the tens of millions of dollars annually. The initiative specifies that all costs associated with regulatory activities are to be funded by the state General Fund. In most cases where the state has a regulatory role, the state offsets the regulatory costs through fees charged to the regulated activity. Thus, subject to future legislative action, these costs could be entirely or partially offset through regulatory fees.

Other Costs

The initiative could result in a number of other state and local fiscal impacts—such as increased local law enforcement costs and local infrastructure costs. The magnitude of these impacts is unknown.

SUMMARY OF FISCAL EFFECTS

This initiative would result in increased state and local tax revenues—potentially in the hundreds of millions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance