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March 15, 2001

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 constitutional amendment entitled the "People's Gaming Act" (File No. SA2001RF0005). The initiative amends the State Constitution to legalize Las Vegas- and Atlantic City-type gambling in 12 California cities 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 provides for Las Vegas- and Atlantic City-type gambling in 12 California cities—Adelanto, Oceanside, Ventura, Bakersfield, Fresno, San Jose, Oakland, Stockton, Antioch, Commerce, Inglewood, and Banning—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 allow these 13 sites to continue the gambling activities or extend Las Vegas- and Atlantic City-type gambling to all cities, counties, and

Indian reservations in California or eliminate the authority to conduct this type of gambling in California.

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. Currently, there are 61 approved tribal-state compacts that allow Las Vegas- and Atlantic City-type gambling. It is not clear whether federal law permits the state to limit Indian gaming to a single site, as called for in this initiative.

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 (up to five for each city or the selected Indian reservation) at the request of each city council or the tribal authority. Each permittee would be required to pay an annual fee in an amount to be determined by the Legislature. The fee revenue would be deposited in the state General Fund. The commission could appoint employees, as necessary, to carry out the provisions of the initiative. All activities would be paid by the state General Fund, subject to appropriation by the Legislature.

This proposal also requires the cities and the Indian reservation to appoint a local commission to investigate applicants for a gaming license, supervise gaming within the city, and establish local licensing fees and taxes. All gaming establishments would be licensed by either the city or the tribal authority 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 hundreds of millions of dollars annually, from income and sales taxes once gambling facilities are established. The amount would depend on the increase in economic activity associated with the initiative, including the degree to which Californians and non-Californians shift their gambling activities from Nevada to California.

These increased revenues would be partially offset to the extent that increased Las Vegas- and Atlantic City-type gambling activities replace other forms of gambling currently available in California, such as the lottery and horse racing. Also, if only one Indian reservation is allowed to conduct these activities (as called for in the initiative),

the increased revenues would be offset by a decline in revenues associated with current gambling activities on Indian reservations.

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 the 12 California cities, potentially in the tens of millions of dollars annually, primarily from locally imposed fees and taxes associated with Las Vegas- and Atlantic City-type gaming activities.

In addition, surrounding local governments could receive increased revenues from taxes relating to secondary economic activity in their areas resulting from the gaming operations.

SUMMARY

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

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance