



December 20, 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 entitled the "Gaming Control Act" (File No. SA2001RF0034, Amendment No. 3-S).

Major Provisions

This measure amends the State Constitution to legalize, for adults 18 years of age or older, all forms of gaming, including Las Vegas type casino gaming and internet gaming, unless specifically prohibited or prohibited by federal law. The measure allows gaming establishments with valid gaming licenses to offer Las Vegas style slot machines, craps, and a variety of other games. Commercial ships, aircraft, and trains operating within the boundaries of the state may also offer casino-style gaming, as can all public and private charitable, beneficial, or nonprofit organizations. This measure also requires the state to provide comprehensive treatment for compulsive gamblers without charge.

In addition, the measure imposes a gross revenue gaming tax of up to 10 percent of the gross revenue from gaming activities in licensed facilities. Twenty-five percent of the tax revenue would be deposited in the state's General Fund; 25 percent would be allocated to the county where the revenue is generated; and 50 percent to the local governments (a city or a county, if the licensed facility is not in a city) where the revenue is generated.

The measure requires the Legislature to enact laws to regulate and license gaming similar to that currently in place in Nevada. The measure also consolidates the California Horse Racing Board, the State Athletic Commission, the Gambling Control Commission, and the Division of Gambling (currently in the Department of Justice) into a new Department of Gaming. Furthermore, the measure creates the California Lottery Corporation to administer the state lottery. Lottery revenues, net of gross revenue

gaming tax and other expenses, would be available exclusively for capital improvements of public schools.

Fiscal Effect of the Initiative

Impact on State Revenues. This measure would generate annual General Fund revenue potentially in the range of one hundred million dollars from the gross revenue gaming tax. The measure would also result in additional state revenues, potentially in the tens of millions of dollars annually, from income and sales taxes once gambling facilities are developed. The amount would depend on the increase in economic activity associated with the measure, including the degree to which Californians and non-Californians shift their gambling activities from Nevada to California.

Impact on State Costs. This initiative would result in additional costs to the state General Fund potentially in the tens of million of dollars annually to support the increase in regulatory and program activities of the Gaming Commission and the Department of Gaming, and to provide treatment for compulsive gamblers. However, the gross revenue gaming tax charged to gaming establishments would offset these costs.

Effects on Local Government. This initiative would significantly increase revenues for cities and counties potentially in the hundreds of millions of dollars annually statewide, primarily from the gross revenue gaming tax. The amount for individual cities and counties would depend on the number and size of gaming facilities located in these cities and counties. 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 tax revenues to state and local governments combined of hundreds of millions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance