

January 29, 2004

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. SA2003RF0071).

Major Provisions of the Initiative

The measure amends the State Constitution to allow Las Vegas- and Atlantic City-type gaming in the cities of Barstow and Oakland for a period of 28 years. After that time, the Legislature could either extend such gaming to all counties in California or eliminate it. The establishment of gaming would be at the discretion of the two cities.

The measure 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 to Barstow and Oakland. The measure requires the state commission to issue up to 12 permits for each city upon request. 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 as many employees as necessary to carry out the provisions of the initiative.

The measure also requires each city to appoint a local commission to investigate applicants for a gaming license. The local commissions would also supervise gaming within each city and establish licensing fees and taxes.

Fiscal Effect

To the extent that Barstow and Oakland chose not to authorize gaming, this measure would have no fiscal effect (assuming the corresponding commissions were not appointed). If the cities chose to authorize gaming, the measure could have the following fiscal effects.

State and Local Tax Revenues. The measure authorizes the Legislature and the affected cities to establish taxes and fees on the authorized gambling activities. If such taxes were imposed, the state and local governments could receive additional revenues.

An expansion of gambling as authorized by this measure could also result in an overall increase in the amount of taxable economic activity in California. This would occur if, over time, there was a large diversion of gambling activity and associated spending from other states to facilities in Barstow and Oakland. This is also the case to the extent that the gaming authorized by this measure replaced existing tribal gaming activities (since much tribal activity is exempt from state taxation). This additional gambling-related activity would lead to an increase in state and local tax revenues (property, sales, and income taxes, for instance).

Total annual revenues to state and local governments are unknown and would depend largely on the level of gaming in the two cities and the tax rates levied by government. These revenues, however, could be in the tens of millions of dollars annually. These increased revenues would be partially offset by revenue reductions to the extent that gaming activities in these cities replaced other forms of gaming currently available in California, such as the lottery, horse racing, and card rooms.

Regulatory Costs. An increase in the amount of gambling in California would result in increased state gaming regulation costs, potentially reaching over \$1 million annually. Presumably, some or all of these costs would be offset by permit fees charged to gaming establishments. Any regulatory costs associated with the city commissions would be offset to some degree by the increased local government revenues.

Other Costs. In addition, the measure would result in unknown, but potentially significant, local government costs associated with an increased presence of gambling, such as for law enforcement and infrastructure.

Summary

This measure would have the following major fiscal effect:

- Increased revenues to the state and particular local governments from gambling-related activities—potentially in the tens of millions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Donna Arduin
Director of Finance