

March 16, 2005

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 related to urban tribal casinos (File No. SA2005RF0056, Amdt. #1-S).

Background

Gambling on Tribal Lands. The federal Indian Gaming Regulatory Act of 1988 and the State Constitution govern gambling operations on Indian land. The federal government determines which lands are designated as tribal lands and therefore eligible for gambling operations. Indian tribes that enter into gambling compacts with the state can operate slot machines and certain other casino-style gambling in California. Compacts are negotiated by the Governor and ratified by the Legislature with a majority vote of each house. Currently, 66 tribes have compacts, and those tribes with casinos operate about 56,000 slot machines.

State and Local Revenues From Tribal Gambling. Existing compacts provide for payments to the state and local governments. These payments are based on numerous methods, including the number of slot machines operated by a tribe and the “net win” of the machines. In total, tribes currently provide state and local governments with annual payments totaling in the low hundreds of millions of dollars. Over time, these payments may increase substantially as more tribes sign compacts, additional slot machines are added by tribes, and the winnings from gambling activities increase.

Major Provisions

The measure amends the California Constitution and state statute to prohibit any gambling compact that would allow a tribal casino located in an “urban area.” The measure defines urban area to mean all land within 15 miles of an area determined by the 2000 U.S. Census to be an “urbanized area” (generally having a population of at least 50,000 people). The measure would not apply to any land of a tribe that, as of January 1, 2005, was eligible for gambling (by means of an existing compact). For any compacts affecting urban land that

the state "must negotiate" (not defined by the measure), the measure requires the compacts to be approved by two-thirds votes of each house of the Legislature.

Fiscal Effect

Indian gambling can result in a variety of fiscal impacts on the state and local governments. For instance:

- The state has negotiated for specific annual payments by tribes to the state and local governments.
- Urban casinos can also indirectly affect state and local government revenues in a variety of ways. For instance, to the extent that casinos result in increased taxable economic activity (above what otherwise would have occurred), state and local governments receive increased tax revenues (from the income, sales, and property taxes, for example). This can occur, for instance, when gambling occurring in neighboring states is shifted to California. On the other hand, since tribal casinos are exempt from many state and local government taxes, they may decrease governmental revenues by redirecting spending away from other forms of entertainment that are taxable to tribal gambling.
- In addition, to the extent that casinos result in increased traffic and crime, local governments experience increased costs for infrastructure and law enforcement.

By restricting tribal casinos in urban areas, the measure could preclude some tribes from operating gambling establishments in the future. Therefore, the fiscal impacts noted above would not occur in those cases. The fiscal effect would also vary among local governments, depending on their location and other circumstances. The net effect on the state and local governments is unknown.

Summary. This measure would have the following major fiscal impact:

- Unknown net fiscal effect on state and local governments from restricting the future development of urban casinos.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Tom Campbell
Director of Finance