

August 24, 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 the establishment of a gaming district (File No. SA2005RF0091).

Major Provisions

Existing Casinos. The California Constitution and state statutes specify the types of legal gambling that can occur in California. For instance, Indian tribes with tribal-state gambling compacts can operate slot machines and certain other casino-style gambling in California. Under these compacts, tribes make various 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.

Establishment of Gaming District. This measure amends the Constitution to allow Las Vegas-style gambling within a “gaming district” that would be established in San Bernardino County. The land for the district would be purchased by the state through eminent domain. Development of the district would be subject to the measure’s specified requirements. Blocks of the district would be auctioned to developers in exchange for payments to cover government expenses. Casinos, however, would be exempt from other state and local taxes. The district would be responsible for the development of infrastructure, including highways and canals. Additional funds would be required to go to specified state budget programs, to develop a center to monitor gambling activities, and to establish an electronic gambling card system. The measure states that it would void provisions of existing compacts that provide payments to the state based on a percentage of earnings.

Fiscal Effect

Costs and Revenues From District. The gaming district would create major new costs for governments—both on a one-time and ongoing basis. For instance, the development of the required infrastructure could total in the billions of dollars on a one-time basis. In addition, ongoing costs would include the monitoring of gambling activities, the gambling card system, and the provision of government services (such as police and fire protection). The measure establishes various mechanisms to pay for these new costs. In addition, the measure requires augmentations to specified state budget programs using a portion of any new revenues. Whether these financing mechanisms were sufficient to pay for the increased government costs would depend on a variety of factors, including the number of businesses choosing to build casinos in the district and their profitability. The net effect on government costs is unknown.

Other Revenue Effects. The district could also indirectly affect government revenues in a variety of ways. For instance, to the extent that the district resulted in increased taxable economic activity (above what otherwise would have occurred) in the surrounding areas, governments would receive increased tax revenues (from the income, sales, and property taxes, for example). This could occur, for instance, if gambling occurring in neighboring states was shifted to California. On the other hand, since the casinos are exempt from state and local government taxes beyond the specified payments, the measure could decrease governmental revenues by redirecting spending away from other forms of entertainment that are taxable to the district. In addition, the measure would eliminate property tax payments to local governments for land included within the district. The measure's provisions relating to existing compact payments to the state could also result in annual revenue losses. The net effect of these types of factors is unknown.

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

- Potential major costs and revenues from the operation of a special gaming district—unknown net impact.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Tom Campbell
Director of Finance