



PROPOSITION 27

Allows Online and Mobile Sports Wagering Outside Tribal Lands. Initiative Constitutional Amendment and Statute.

ANALYSIS OF MEASURE

BACKGROUND

Sports Betting. State law currently bans sports betting in California. However, state law allows some gambling, such as tribal gambling, the state lottery, cardrooms, and horse racing betting.

Tribal Gambling. Native American tribes have certain rights under federal law to govern themselves, such as certain rights to offer gambling. This means that the state generally cannot regulate tribal gambling except as allowed by (1) federal law and (2) federally approved agreements between a tribe and state (known as tribal-state compacts). When a tribe wants to offer gambling on its lands, federal law requires that the state negotiate a compact with the tribe. If the tribe and the state cannot agree, the federal government may issue a compact instead. In California, compacts allow tribal casinos to offer slot machines and other games on tribal lands. These compacts lay out how gambling will be regulated. They also require certain payments, such as to the state and local governments. Tribes can ask for these compacts to be changed, such as when new types of gambling become legal in the state.

California currently has compacts with 79 tribes. Tribes currently operate 66 casinos in 28 counties. Last year, tribes paid around \$65 million to support state regulatory and gambling addiction program costs. Tribes also pay tens of millions of dollars to local governments each year (annually). Additionally, tribes operating larger casinos pay nearly \$150 million each year to tribes that either do not operate casinos or have less than 350 slot machines.

State Homeless Housing, Assistance, and Prevention Program (HHAPP). HHAPP provides funding to local entities (such as cities) and tribes to help them achieve their goals related to addressing homelessness. Currently, 80 percent of HHAPP funds go to local entities generally based on their share of the state's homeless population, 2 percent to tribes, and 18 percent to the state to provide bonuses to local entities and tribes who meet their goals. The program received \$1 billion in state funds this year.

PROPOSAL

Proposition 27 allows tribes or gambling companies to offer online sports betting. It requires tribes and gambling companies that offer online sports betting to make certain payments to the state for specific purposes—such as to support state regulatory costs and to address homelessness. The proposition also creates a new online sports betting regulatory unit. Finally, it provides new ways to reduce illegal online sports betting.

Allows Tribes or Gambling Companies to Offer Online Sports Betting. Proposition 27 changes the California Constitution and state law to allow online sports betting over the Internet and mobile devices. People 21 years of age and older in California, who are not on tribal lands, would be able to place bets no later than September 2023. The proposition allows bets on athletic events (such as football games) and some non-athletic events (such as awards shows and video game competitions). However, it bans bets on certain other events such as high school games and elections.

The proposition allows the following groups to apply for a five-year license to offer online sports betting:

- ***Tribes With Tribal-State Compacts.*** Licensed tribes, or their contractors, could offer sports betting under the tribe’s name. The proposition requires tribes to give up some of their rights under federal law to get a license. For example, tribes must agree to a certain amount of state regulation.
- ***Certain Gambling Companies.*** Licensed gambling companies could offer sports betting under their own name or brand. These companies must partner with a tribe with a tribal-state compact. The proposition limits licenses to larger companies, such as those that have online sports betting licenses in at least ten U.S. states or territories.

Requires Payments to State. Proposition 27 requires various sports betting payments to the state. For example, tribes and gambling companies with sports betting licenses must pay 10 percent of sports bets made each month to the state, after subtracting various expenses. These expenses include: (1) any bets made with credits from promotional offers, (2) prize payments, and (3) federal gambling taxes. Losses, which result when expenses are more than bets, may be used to offset these payments. A portion of these monthly payments must be made in advance when the sports betting license is approved or renewed. This reduces the actual monthly amount owed. Specifically, a tribe must pay \$10 million when its five-year license is approved. It must also pay \$1 million each time its license is renewed. A gambling company must pay \$100 million when its five-year license is approved. It must also pay \$10 million each time its license is renewed.

Creates New Fund. The above payments to the state would go into a new California Online Sports Betting Trust Fund (COSBTF). Proposition 27 requires COSBTF revenues first be used for state regulatory costs. The rest would be used for two major purposes:

- 85 percent to address homelessness and for gambling addiction programs. The money to address homelessness would be provided to local entities generally in the same way as HHAPP funding.

- 15 percent for tribes that are not involved in online sports betting. Tribes could use these funds for tribal government, health, economic development, or other purposes.

Exempts Revenues From State Spending Limit and Minimum Education Spending Levels. The California Constitution includes various rules that impact the state budget. These rules include a state spending limit and require a minimum amount of spending on K-12 schools and community colleges each year. Proposition 27 changes the California Constitution to exempt sports betting revenues from these rules.

Creates New State Online Sports Betting Regulatory Unit. Proposition 27 creates a new unit within the California Department of Justice to regulate online sports betting. This unit would set the requirements to get a license. It would also decide what types of events and bets are allowed. Additionally, this unit would investigate illegal activities (such as the “fixing” of events). However, the proposition puts limits on the unit. For example, the unit could not limit the amount of promotional credits offered to bettors. The proposition also creates a 17-member group to provide advice and recommendations to the unit, including written feedback on any potential regulations.

Provides New Ways to Reduce Illegal Online Sports Betting. Proposition 27 creates new ways to reduce illegal online sports betting. When people place online sports bets with any unlicensed entity, the proposition requires those people pay the state a penalty. This penalty equals 15 percent of the amount that they bet. The proposition also allows for a \$1,000 penalty for each day this money is not paid. These payments would go into the COSBTF. Additionally, the state’s new regulatory unit could take certain enforcement actions. These actions can include requiring unlicensed entities provide the names of people placing bets with them and blocking online access to these entities.

FISCAL EFFECTS

Proposition 27 would impact both state and local government revenues and costs. The actual size of these effects, however, is uncertain and would depend on how the proposition is interpreted and implemented. For example, this proposition expands legal gambling. In response, it is unclear whether tribes will ask for changes to their tribal-state compacts (such as to reduce the amount paid to local governments) to reflect potential impacts on tribal casinos. The fiscal effects would also depend on how many licensed entities offer sports betting and the amount of expenses they subtract from the monthly amount owed to the state. Finally, the fiscal effects would depend on the number of people who choose to make sports bets.

Increased State Revenues. Proposition 27 would increase state revenues from sports betting payments and penalties. The size of this increase is uncertain. The increase could be in the hundreds of millions of dollars annually, but likely would not be more than \$500 million annually. Some of this revenue would be new. For example, the state currently does not receive any share of illegal sports bets made online. This means the state would receive new revenue when people make sports bets legally rather than illegally. However, some of this revenue would not be new. For example, the state currently receives revenue when people spend money on certain things, such as lottery games or shopping. This means the state might not receive new revenue when people spend less on those things so they could make sports bets.

State revenues from sports betting payments and penalties would go into the COSBTF. The monies would first be used for state regulatory costs. The rest would support (1) homelessness programs, (2) gambling addiction programs, and (3) tribal economic development and other purposes.

Increased State Regulatory Costs. Proposition 27 would create work for the state to regulate online sports betting. The amount of work would depend mostly on how sports betting is regulated. Key examples of this include: the number of sports betting licenses approved, the type and number of betting options and events offered, and how much state enforcement is done. Total costs for this work could reach the mid-tens of millions of dollars annually. Some or all of these costs would be offset by COSBTF revenues.

Other Fiscal Effects. Proposition 27 could result in other fiscal effects on the state and local governments. For example, state and local revenue could increase from people coming from out of state to place sports bets and spending more than they otherwise would. However, some or all of this increased local revenue could be offset. For example, tribes might ask for their tribal-state compacts to require less payment to local governments to reflect potential impacts sports betting has on their casinos. Additionally, state and local governments could have increased costs. For example, online sports betting could make it more difficult for people with gambling addictions to avoid placing bets. This could increase the number of people who might need government assistance. The net effect of the above effects on the state and local governments is unknown.

YES/NO STATEMENT

A **YES** vote on this measure means: Licensed tribes or gambling companies could offer online sports betting over the Internet and mobile devices to people 21 years of age and older on non-tribal lands in California. Those offering online sports betting would be required to pay the state a share of sports bets made. A new state unit would be created to regulate online sports betting. New ways to reduce illegal online sports betting would be available.

A **NO** vote on this measure means: Sports betting would continue to be illegal in California. No changes would be made to the way state gambling laws are enforced.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Increased state revenues, possibly in the hundreds of millions of dollars but likely not more than \$500 million annually, from sports betting payments and penalties. Some of these revenues would be a shift from existing state revenues.
- Increased state costs to regulate online sports betting, possibly reaching the mid-tens of millions of dollars annually. Some or all of these costs would be offset by the increased revenues.

BALLOT LABEL

Fiscal Impact: Increased state revenues, possibly in the hundreds of millions of dollars but not likely to exceed \$500 million annually. Some revenues would support state regulatory costs, possibly reaching the mid-tens of millions of dollars annually.