

AUGUST 10, 2022

**Proposition 26: Allows In-Person Roulette,
Dice Games, Sports Wagering on Tribal Lands.
Initiative Constitutional Amendment and Statute.**

PRESENTED TO:

Assembly Committee on Governmental Organization
Hon. Miguel Santiago, Chair

Senate Committee on Governmental Organization
Hon. Bill Dodd, Chair



LEGISLATIVE ANALYST'S OFFICE

LAO Role in the Initiative Process

Fiscal Analysis Prior to Signature Collection

- State law requires our office to work with the Department of Finance to prepare a joint impartial fiscal analysis of each initiative before it can be circulated for signatures. State law requires that this analysis provide an estimate of the measure's fiscal impact on the state and local governments.
- A summary of the estimated fiscal impact is included on petitions that are circulated for signatures.

Analyses for Qualified Measures

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide. This analysis includes a description of the proposition and its fiscal effects.



Background

Gambling in California

- The California Constitution and state law limit gambling in California. For example, state law bans sports betting, roulette, and games with dice (such as craps).
- However, it allows some gambling, including:
 - **State Lottery.** About 23,000 stores in all 58 counties sell state lottery games. Lottery sales—after prizes and operation costs—support education. About \$1.9 billion in lottery revenue supported education last year.
 - **Cardrooms.** Currently, 84 cardrooms in 32 counties can offer certain card games (such as poker). Cardrooms pay state and local fees and taxes—such as \$24 million each year generally for state regulatory costs and around \$100 million each year to cities in which they are located.
 - **Horse Racing Betting.** Four privately operated racetracks as well as 29 fairs, publicly operated racetracks, and other facilities in 17 counties offer betting on horse racing. The industry pays state and local fees and taxes—such as \$18 million each year in fees for state regulatory costs.
 - **Tribal Casinos.** Tribal casinos offer slot machines, lottery games, and card games on tribal lands at 66 casinos in 28 counties under tribal-state compacts. Each year, tribes pay around \$150 million to tribes that do not operate casinos or have less than 350 slot machines, \$65 million to support state regulatory and problem gaming costs, and tens of millions of dollars to local governments.



Background

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Tribal-State Compacts

- Native American tribes have certain rights under federal law to govern themselves. This means the state regulation of tribal gambling is limited to what is 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. 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. These compacts lay out what games can be offered by tribal casinos; how gambling will be regulated; and require certain payments, such as to the state and local governments.

Enforcement of State and Local Gambling Laws

- California's state and local gambling laws are enforced in various ways. For example, regulatory agencies can take back licenses, issue fines, or seek penalties through civil lawsuits filed in state trial courts. The California Department of Justice (DOJ), county district attorneys, and city attorneys can file criminal cases in state trial courts against those breaking certain gambling laws.

Annual Required Education Spending

- Proposition 98 (1988) requires the state to spend a minimum amount on K-12 schools and community colleges each year. This minimum amount grows over time based on growth in state tax revenues, the economy, and student attendance. The 2022-23 budget includes \$110 billion to meet this requirement. The state General Fund currently provides more than \$80 billion towards this amount. Local property taxes also are used to meet this minimum amount.



Proposal

Allows In-Person Sports Betting at Racetracks and Tribal Casinos

- Changes the California Constitution and state law to allow the state's privately operated racetracks and tribal casinos to offer sports betting. However, betting would be banned on certain sports—such as high school games and games in which California college teams participate.
 - **Requirements on Racetracks.** Allows the state's four privately operated racetracks to offer in-person sports betting to people 21 years of age and older. Requires the racetracks pay the state 10 percent of sports bets made each day—after subtracting any prize payments—for deposit into a new California Sports Wagering Fund (CSWF).
 - **Requirements on Tribal Casinos.** Requires tribes that choose to offer sports betting at tribal casinos first change their compacts with the state to allow it. Each tribe's compact would lay out the requirements it must follow—such as the minimum age to place a bet, any required payments to the state and local governments, and whether tribal payments would go into the new CSWF. If payments do not go into the new CSWF, tribes must at least pay the state for the cost of regulating sports betting at tribal casinos.

Requires Specific Use of CSWF Revenues

- Requires CSWF revenues be considered state tax revenues to calculate the minimum amount of spending on K-12 schools and community colleges each year. This means CSWF monies would first be used to help meet this required spending level on education.
- Requires monies next be used to support state regulatory costs. Remaining monies would be used in three ways: (1) 15 percent for gambling addiction and mental health programs and grants, (2) 15 percent for sports betting and gambling enforcement costs, and (3) 70 percent to the state General Fund.



Proposal

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Allows Additional Gambling at Tribal Casinos

- Changes the California Constitution to allow roulette and games played with dice at tribal casinos, if tribal-state compacts are changed to allow them to do so.

Adds New Enforcement Method

- Adds a new way to enforce certain state gambling laws, such as laws banning certain types of card games. Specifically, it allows people or entities that believe someone is breaking these laws to file a civil lawsuit in state trial courts to ask for penalties of up to \$10,000 per violation or to stop the behavior.
- Allows these civil lawsuits only if the person or entity filing it first asks DOJ to act and either (1) DOJ does not file a court case within 90 days or (2) a court rejects the case filed by DOJ without prohibiting it from being filed again. Penalties collected would go into the CSWF for the purposes laid out above.



Fiscal Effects

Size of Fiscal Effects Uncertain

- Actual size of the fiscal effects on state and local government revenues and costs are uncertain and would depend on how the proposition is interpreted and implemented.
- For example, it is unclear if tribal-state compacts changed to allow for sports betting would require additional payments to local governments. The fiscal effects would also depend on the number of people who choose to make sports bets and how often the new civil enforcement method is used.

Increased State Revenues

- Increased state revenues, possibly reaching the tens of millions of dollars annually, from racetrack and tribal sports betting payments as well as civil penalties. Some of this revenue would be new—such as from people making sports bets legally rather than illegally. However, some of this revenue would be a shift from existing state revenues. 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.
- Some of the increased revenue would go into the CSWF, resulting in a higher minimum amount of Proposition 98 spending on K-12 schools and community colleges than would otherwise be required. About 40 percent of CSWF money would likely be used to meet this higher minimum spending amount. The remaining 60 percent would be used for sports betting and gambling-related costs as well as other state spending priorities.



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Effects on Local Government Revenues

- Various potential impacts on local government revenues. For example, cardrooms may earn less revenue if they are negatively impacted by the new civil enforcement method. This could reduce the taxes and fees they pay to the cities where they are located.
- The effects on most local governments would likely not be large. However, there could be larger effects on a few local governments that receive a large share of their revenue from cardrooms. For example, one city estimates cardroom payments are about 70 percent of its General Fund revenues.
- At the same time, tribal-state compacts changed to allow for sports betting could require additional tribal payments to local governments.

Increased State Regulatory Costs

- Increased state costs for state agencies (such as DOJ) to regulate in-person sports betting, possibly reaching the low tens of millions of dollars annually. These costs would depend mostly on how sports betting is regulated, such as what types of bets are not allowed.
- Some or all of these costs would be offset by CSWF revenues and tribal payments to the state that do not go into the CSWF.

Increased State Enforcement Costs

- Increased state costs for DOJ and the state courts related to the new civil enforcement method, not likely to exceed the low millions of dollars annually. DOJ would need to review and respond to claims that gambling laws are being broken. State courts would also need to process any civil lawsuits filed. Total costs would depend largely on how often the new civil enforcement method is used. Some of these costs could be offset by CSWF revenues.



Fiscal Effects

(Continued)

Other Fiscal Effects

- Unknown net effect of various 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. Additionally, state and local governments could have increased costs. For example, more people visiting racetracks or casinos could increase state and local law enforcement costs.

