

AUGUST 10, 2022

**Proposition 27: Allows Online and Mobile
Sports Wagering Outside 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

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. 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.
- Currently, 66 tribal casinos in 28 counties offer slot machines, lottery games, and card games. Each year, tribes pay around \$150 million to tribes that do not operate casinos or have less than 350 machines, \$65 million to support state regulatory and problem gaming costs, and tens of millions of dollars to local governments.

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

Allows Tribes or Gambling Companies to Offer Online Sports Betting

- 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.
- Allows bets on athletic events (such as football games) and some non-athletic events (such as awards shows and video game competitions). However, bets on certain other events (such as high school games and elections) would be banned.
- 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. Tribes would be required to give up some of their rights under federal law to get a license—such as agreeing to a certain amount of state regulation.
 - ***Certain Gambling Companies.*** Licensed gambling companies, who must partner with a tribe with a tribal-state compact, could offer sports betting under their own name or brand. Licenses would be limited to larger companies, such as those that have online sports betting licenses in at least ten U.S. states or territories.



Proposal

(Continued)

Requires Payments to State

- 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.
- Requires a portion of these monthly payments 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

- Requires deposit of sports betting payments into a new California Online Sports Betting Trust Fund (COSBTF). COSBTF revenues must 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.



Proposal

(Continued)

Exempts Revenues From State Spending Limit and Minimum Education Spending Levels

- Changes the California Constitution to exempt sports betting revenues from certain rules that impact the state budget, including a state spending limit (commonly referred to as the state appropriations limit) and the required minimum amount of Proposition 98 spending on K-12 schools and community colleges each year.

Creates New State Online Sports Betting Regulatory Unit

- 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, decide what types of events and bets are allowed, and investigate illegal activities (such as the “fixing” of events). However, unit activities are limited. For example, the unit could not limit the amount of promotional credits offered to bettors.
- 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

- Creates new ways to reduce illegal online sports betting, such as (1) requiring people who place online sports bets with any unlicensed entity to pay the state a penalty equal to 15 percent of the amount that they bet and (2) authorizing a \$1,000 penalty for each day this money is not paid. These payments would go into the COSBTF.
- Authorizes state’s new regulatory unit to take certain enforcement actions, such as requiring unlicensed entities provide the names of people placing bets with them and blocking online access to these entities.



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 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 due to the expansion of legal gambling.
- The fiscal effects would also depend on how many licensed entities offer sports betting, the amount of expenses licensed entities subtract from the monthly amount owed to the state, and the number of people who choose to make sports bets.

Increased State Revenues

- 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 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.
- 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.



Fiscal Effects

(Continued)

Increased State Regulatory Costs

- Increased state costs to regulate online sports betting, possibly reaching the mid-tens of millions of dollars annually. The increase would depend mostly on how sports betting is regulated—such as the number of sports betting licenses approved, the type and number of betting options and events offered, and how much state enforcement is done. Some or all of these costs would be offset by the increased revenues.

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. 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.

