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October 14, 1997

Hon. Daniel E. Lungren
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Rosemary Calderon

Dear Attorney General Lungren:

Pursuant to Elections Code Section 9005, we have reviewed the initiative entitled "The People's Gaming Act" (File No. SA 97 RF 0032). This constitutional measure would allow California City in Kern County and one Indian reservation in the state to operate casino-type gaming, as defined by the measure.

MAJOR PROVISIONS OF THE INITIATIVE

The measure amends the State Constitution to provide casino-type gaming only in California City and one Indian reservation (to the exclusion of all other cities, counties, and Indian reservations in California) for a period of 25 years. The single Indian reservation would be selected by a majority vote of all sovereign Indian tribes recognized as such within the boundaries of the State of California. After 25 years, the Legislature could either extend casino-type gaming to all cities, counties, and Indian reservations in California or eliminate it entirely.

The measure provides the inclusion of the Indian reservation only if federal law should mandate parity of the Indians' right to conduct gaming within the state.

Existing federal law (the Indian Gaming Regulatory Act of 1988) authorizes Indian tribes in any state to operate any gambling games that are otherwise legal in the state, subject to a negotiated agreement with the state. A number of issues regarding the state's ability to restrict Indian gaming, however, currently are in litigation; and it is not clear whether federal law permits the state to limit Indian gaming to a single site.

The measure establishes the "People's Gaming Act Commission," a three-member body appointed by the Governor. The commission would exercise state regulatory authority over gaming and issue gaming permits for establishments in California City. Each permittee would be required to pay an annual permit fee in an amount to be determined by the Legislature. Current federal law stipulates that fees assessed by the state against Indian tribes for the regulation of tribal gaming activities shall only be an amount equal to the costs of regulating the gaming activities. The permit fee revenue would be placed in the state General Fund. The commission could appoint as many employees as necessary to carry out the provisions of the measure.

This proposal also would require California City to provide a full-time, three-member commission for screening, investigating, and licensing applicants for a gaming license, as well as supervising gaming within the city and establishing licensing fees. The Indian reservation would govern itself with respect to these matters. All establishments where gaming is conducted must be licensed by either California City or the Indian reservation, and be granted a permit from the People's Gaming Act Commission.

Legislation recently signed by the Governor (SB 8, Lockyer) establishes a Gambling Control Commission, creates a Division of Gambling Control within the Department of Justice, and provides for statewide regulation of certain types of gambling which currently are legal in the state.

FISCAL EFFECTS OF THE INITIATIVE

Effects on State Government

Impact on State Revenues. This measure could result in additional state revenues, potentially in the tens of millions of dollars annually, from income and sales taxes once gaming facilities are established. The amount would depend upon the increase in economic activity associated with the measure, including the degree to which Californians shift their gaming activities from Nevada to California.

These increased revenues would be partially offset to the extent that increased casino-type gaming activities replace other forms of gaming currently available in California, such as the lottery and horse racing. Also, revenues generated from gaming on

reservations would be less than for comparable operations situated elsewhere because Indian tribes are exempt from certain taxes.

Impact on State Regulatory Costs. This measure would result in costs to the state General Fund of up to several million dollars annually to support the regulatory activities of the People's Gaming Act Commission. Presumably, these costs would be offset by permit fees charged to gaming establishments.

Effects on Local Government

This measure could significantly increase revenues for California City, potentially in the millions of dollars annually, primarily from locally imposed fees and taxes associated with casino-type gaming activities. These revenues could more than offset regulatory costs associated with the three-member city commission. However, competition from gaming on Indian reservations could reduce the city's revenue potential.

In addition, surrounding local governments could receive increased revenues from taxes relating to secondary economic activity in their areas resulting from the gaming operations. The level of increase is unknown, but potentially in the millions of dollars annually.

SUMMARY

This measure could result in revenues to the state and local governments—potentially in the tens of millions of dollars annually—from fees and taxes associated with casino-type operations and other related economic activity. Some of the increased revenues would be offset by state and local regulatory costs and, potentially, by reduced lottery and horse-racing-related revenues.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Craig L. Brown
Director of Finance