

July 12, 2007

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Toni Melton
Initiative Secretary

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory measure related to online poker (A.G. File No. 07-0017, Amdt. #2-S).

Proposal

Establishes State Online Poker Game. The State Constitution and laws prohibit many forms of gambling, with certain specified exemptions. This measure establishes a state-owned poker site on the Internet. The site would generate revenue through “rake” (a percentage amount of funds wagered by players) and tournament entry fees. Players would have to be at least 21 years of age and reside in (1) California or (2) other states and localities where local law does not prohibit participation. The measure provides that the state may enter into revenue-sharing and similar agreements with other states, localities, and federally recognized Indian tribes in California related to the Internet site.

Distribution of Net Revenues. Of the Internet site’s net revenues, 80 percent would be apportioned on a per capita basis to incorporated cities and towns to repair potholes and broken streets, 10 percent would be allocated to counties for pothole and street repair in unincorporated areas, and the remaining 10 percent would be allocated to a state government fund that provides moneys to organizations that assist persons with gambling addiction problems.

Fiscal Effect

Revenues and Expenditures of Online Poker Site. The state would collect revenues from online poker players, as described above. After payment of administrative expenses and player winnings, net revenues would remain. The net revenues would be distributed to (1) cities and counties to use for pothole and street repair and (2) a state account that funds gambling addiction assistance programs. The amount of such net revenues is unknown, but could easily be in the tens of millions of dollars annually. The

amount would depend in large part on (1) the design of the game by the state and (2) how successfully it is marketed to potential players both in California and other states.

Revenue Reductions for State and Local Governments. To the extent that Californians spend money playing the online poker game, they would spend less consuming other goods and services, including other gambling services. The state and local governments would experience a loss of other tax revenues (such as sales tax revenues from reduced purchases) and gambling-related revenues (such as revenues generated from the California Lottery, card rooms, horse racing establishments, and tribal casinos). The amount of these revenue losses is unknown, but could offset a significant amount of the net revenues from the state poker site.

Summary. This measure would have the following fiscal effects:

- Unknown increase in revenues for (1) cities and counties to use for pothole and street repair and (2) the state to use for gambling addiction assistance programs. This increase could easily be in the tens of millions of dollars annually.
- Unknown reduction in other tax and gambling-related revenues for the state and local governments. This reduction could offset a significant amount of the net revenues from the state poker site.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Michael C. Genest
Director of Finance