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Overview of Gambling in California

PRESENTED TO: Senate Governmental Organization Committee
Hon. Bill Dodd, Chair



LEGISLATIVE ANALYST'S OFFICE

Overview of Handout

Major Forms of Gambling In California

- Tribal gaming
- California State Lottery
- Cardrooms
- Horse racing
- Gambling by charitable organizations

Emerging Gambling Issues



Tribal Gaming

Authorizing Statute. Proposition 1A (2000) amended the State Constitution to allow federally recognized tribes to operate slot machines, lottery games, and banking and percentage card games on tribal lands in California. A tribe can open a casino with these games if (1) the Governor and the tribe reach an agreement on a tribal-state compact, (2) the Legislature approves the compact, and (3) the federal government approves the compact.

Size of Industry. The Legislature has ratified tribal-state gaming compacts with 74 of California's 110 federally recognized tribes. Currently, 61 tribes operate 63 casinos in 27 counties. The industry generates about \$8 billion in revenue after winnings.

State Revenue. The state General Fund is projected to receive \$3.6 million in revenue in 2018-19—down from around \$330 million annually prior to 2016-17. This decrease reflects a number of tribal-state compacts that were amended to comply with a federal court ruling prohibiting California from requiring tribes to make payments into the state General Fund upon renegotiation of their compacts. An additional \$33 million in revenue will support state regulatory and problem gaming costs.

Regulation. Each tribe with a casino maintains a gaming agency to provide on-site regulation of gaming operations. The California Gambling Control Commission (CGCC) and the Bureau of Gambling Control (BGC) within the Department of Justice (DOJ) share responsibility for ensuring that tribes comply with the terms of their tribal-state compacts.



California State Lottery

Authorizing Statute. Proposition 37 (1984) amended the State Constitution to authorize a statewide lottery in California.

Games Offered. Authorized games can provide opportunities to instantly win (such as Scratcher games) or win by selecting numbers (such as SuperLotto Plus). Some games (such as Powerball) are multistate lottery games.

Size of Industry. Approximately 23,000 retailers in all 58 counties currently sell lottery products. The industry generated nearly \$2.5 billion in revenue after winnings in 2017-18.

State Revenue. In 2017-18, nearly \$1.7 billion in lottery revenue will be used to support education. Additionally, about \$830 million in lottery revenue will be used to support administrative, regulatory, and problem gaming costs.

Regulation. Proposition 37 also created a five-member Lottery Commission to oversee the operations (including authorization of games and regulatory activities) of the State Lottery. Commission members are appointed by the Governor and confirmed by the Senate.



Cardrooms

Authorizing Statute. State law permits cardrooms to operate in those cities or counties that have adopted ordinances that authorize them. In addition, cardrooms must also comply with additional state regulatory requirements, such as licensing. Currently, there is a moratorium on new cardrooms through January 1, 2023. Moratoriums on new cardrooms have generally been in place since 1995.

Games Offered. Cardrooms offer certain card games (such as poker and pai-gow) that are approved by the BGC. These games must also comply with state law and local gaming ordinances.

Size of Industry. Currently, there are 88 cardrooms that operate in 32 counties in California. The industry generates roughly \$850 million in revenue after winnings.

State Revenue. Cardrooms and their owners are subject to state business and income taxes. Additionally, about \$21.2 million in fees are projected to be collected from the industry in 2018-19 to support state regulatory and problem gaming costs.

Regulation. The BGC and the CGCC share responsibility for regulating cardrooms. Such regulation includes licensing as well as approval of games and gaming activities (such as jackpots or tournaments). Local governments also have limited oversight of cardrooms, including the ability to increase the number of gaming tables at cardrooms within their jurisdiction under specified circumstances.



Horse Racing

Authorizing Statute. Proposition 3 (1933) amended the State Constitution to legalize wagering on horse racing. State law authorizes wagering to occur on-site at the track, off-site at satellite facilities in California, online through advance deposit wagering, or at out-of-state locations that collect wagers on California horse races.

Size of Industry. Currently, 37 tracks, fairs, and satellite facilities operate in 19 counties in California. The industry generated nearly \$660 million in revenue after winnings in 2017-18.

Major Source of State Revenue. The horse racing industry is subject to state business and income tax requirements. The state General Fund also received about \$1 million in revenue directly in 2017-18. Additionally, \$14 million was spent in fees collected from the industry to support state regulatory and administrative costs.

Regulation. Proposition 3 also created a seven-member California Horse Racing Board to oversee and regulate the industry in California. Board members are appointed by the Governor.



Gambling by Charitable Organizations

Card Night Fundraisers. State law authorizes certain nonprofit organizations to host one “card night” fundraiser per year. Only specific card games approved by BGC (such as poker) may be played at such events. Statute also requires that 90 percent of the gross revenue from the fundraiser go to the nonprofit organization. These events are regulated by BGC and DOJ’s Charitable Trusts Section, as well as local ordinances.

Bingo. Proposition 9 (1976) amended the State Constitution to authorize cities and counties to allow bingo games to be conducted for charitable purposes. A local ordinance must be adopted before bingo can be conducted. The BGC, CGCC, and local governments regulate bingo activities.

Raffles. Proposition 17 (2000) amended the State Constitution to authorize certain nonprofit organizations to conduct raffles to raise funds for beneficial or charitable purposes in California. The measure requires that at least 90 percent of the gross revenue from the fundraiser go to beneficial or charitable purposes in California. Raffles are regulated by DOJ’s Charitable Trusts Section.

50-50 Raffles. Chapter 509 of 2015 (SB 549, Hall) authorized certain major league sports organizations (such as the Los Angeles Kings Foundation and the San Francisco 49ers Foundation) to conduct raffles at home games where 50 percent of the gross revenue goes to beneficial or charitable purposes, while the other 50 percent is paid to the winners. Such raffles are authorized through January 1, 2024 and are regulated by BGC.



Emerging Gambling Issues

Available Revenues to Transfer to Tribal Nation Grant Fund (TNGF). A number of gaming compacts require tribes to make payments into the Revenue Sharing Trust Fund (RSTF) to provide each non-gaming or limited gaming tribe with up to \$1.1 million annually. Generally, RSTF revenues not needed to provide these payments could be transferred to the TNGF for distribution through a grant process to non-gaming or limited gaming tribes for purposes related to self-government, developing a self-determined community, and economic development. Since the TNGF was established in 2012, there has never been sufficient RSTF revenues to transfer to it. However, the Governor's budget estimates that \$39.3 million will be eligible for transfer to the TNGF in 2019-20.

Expiration of Certain Tribal Compacts. Approximately 35 tribes have compacts that were negotiated in 1999 that are scheduled to expire on December 31, 2020.

Authorization of Sports Betting. The Federal Professional and Amateur Sports Protection Act (PAPSA) of 1992 was previously interpreted to prohibit most state and local governments from authorizing wagering on nearly all sports. The U.S. Supreme Court ruled in May 2018 that PAPSA was unconstitutional. This led to a number of states—such as Delaware, Mississippi, New Jersey, New York, Pennsylvania, Rhode Island, and West Virginia—to legalize sports betting. Numerous other states have considered authorizing legislation as well.

New Interpretation of the Wire Act. The Federal Wire Act of 1961 generally prohibits the electronic transmission of information or payments related to bets or wagers across state or national borders. In November 2018, the U.S. DOJ issued a legal opinion concluding that this prohibition applies to all forms of gambling—not just sports wagering as it concluded in 2011.

