

## Department of Gaming

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	155.8	155.8	155.8 <sup>1/</sup>
Personal Services	4,656,700	6,226,600	6,226,600
Employee Related Expenditures	1,803,400	2,598,700	2,598,700
Professional and Outside Services	389,600	1,499,600	1,499,600
Travel - In State	275,700	461,800	461,800
Travel - Out of State	49,300	73,200	73,200
Other Operating Expenditures	2,064,300	2,701,800	2,701,800
Equipment	146,200	178,400	178,400
<b>OPERATING SUBTOTAL</b>	<b>9,385,200</b>	<b>13,740,100</b>	<b>13,740,100</b>
<b>SPECIAL LINE ITEMS</b>			
Arizona Breeders' Award	250,000	250,000	250,000
Casino Operations Certification	1,329,500	2,299,400	2,330,300
Contract Veterinarian	25,300	175,000	175,000 <sup>2/</sup>
County Fairs Livestock and Agriculture Promotion	6,029,500	6,029,500	6,029,500 <sup>3/</sup>
Division of Racing	1,846,000	2,435,900	2,448,500
Event Wagering Application Fee Refund	0	600,000	0
Horsereading Integrity and Safety Act Assessment	355,100	355,100	1,355,100 <sup>4/</sup>
Problem Gambling	2,318,400	3,320,000	3,320,000
Racetrack Capital Projects and Maintenance and Operation Funding	0	1,000,000	1,500,000 <sup>5/</sup>
Racetrack Purse and Maintenance and Operations Funding	5,396,900	0	0
Racing Purse Enhancement	4,850,000	5,000,000	4,000,000 <sup>6/</sup>
<b>AGENCY TOTAL</b>	<b>31,785,900</b>	<b>35,205,000</b>	<b>35,148,500 <sup>7/8/</sup></b>
<b>FUND SOURCES</b>			
General Fund	16,656,800	13,159,600	11,704,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	11,196,700	16,610,000	16,610,000
Fantasy Sports Contest Fund	206,900	150,100	150,100
Racing Regulation Fund	1,991,400	2,580,700	3,948,400
Racing Regulation Fund - Unarmed Combat Subaccount	104,600	105,200	105,200
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,329,500	2,299,400	2,330,300
SUBTOTAL - Other Appropriated Funds	15,129,100	22,045,400	23,444,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>31,785,900</b>	<b>35,205,000</b>	<b>35,148,500</b>
Other Non-Appropriated Funds	3,913,100	3,715,000	3,715,000
<b>TOTAL - ALL SOURCES</b>	<b>35,699,000</b>	<b>38,920,000</b>	<b>38,863,500</b>

**AGENCY DESCRIPTION** — The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is also responsible for certifying casino employees and vendors working with casinos. The department also regulates non-tribal gaming activities including the Division of Racing, fantasy sports contests, and event wagering.

### FOOTNOTES

<sup>1/</sup> Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2025.

<sup>2/</sup> On or before the final day of each quarter of fiscal year 2024-2025, the department of gaming shall report to the members of the joint legislative budget committee on the number of equine deaths and injuries that occurred as a result of a horse race and the commercial live racing facility where each incident occurred. The report shall include the number

of pre-race inspections performed by a veterinarian employed by or contracted with this state. (General Appropriation Act footnote)

- 3/ The amount appropriated to the county fairs livestock and agriculture promotion line item is for deposit in the county fairs livestock and agriculture promotion fund established by section 5-113, Arizona Revised Statutes, and to be administered by the office of the governor. (General Appropriation Act footnote)
- 4/ The amount appropriated to the horseracing integrity and safety act assessment line item shall be used by the department during fiscal year 2024-2025 to pay the calendar year 2024 assessment levied by the horseracing integrity and safety authority. (General Appropriation Act footnote)
- 5/ The appropriation made in the racetrack capital projects and maintenance and operation funding line item shall be distributed to commercial live racing permittees for capital projects and track maintenance and operations, including costs associated with the compliance costs associated with the horseracing integrity and safety act of 2020 (P.L. 116-260; 134 Stat. 3252; 15 United States Code sections 3051 through 3060). From the amount appropriated in the racetrack capital projects and maintenance and operations funding line item, the department of gaming shall allocate \$1,500,000 to a commercial live racing permittee located in Maricopa county. (General Appropriation Act footnote)
- 6/ The amount appropriated in the racing purse enhancement line item shall be distributed to a recognized nonprofit horsemen's organization that has represented horsemen participating in racing meetings since 1988 to be used to promote racing and enhance the general purse structure for eligible horse races held in this state. (General Appropriation Act footnote)
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 8/ On or before August 1, 2024, the department of gaming shall report to the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting on the expected amount and purpose of expenditures from the event wagering fund established by section 5-1318, Arizona Revised Statutes, for fiscal year 2024-2025. The report shall include the projected line item detail and the number of filled full-time equivalent positions. (General Appropriation Act footnote)

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#### **Administrative Expenses**

The budget includes \$13,740,100 in FY 2025 for administrative expenses, which consists of \$13,590,000 from the Arizona Benefits Fund and \$150,100 from the Fantasy Sports Contest Fund. The appropriation from the Arizona Benefits Fund serves as a cap on the level of spending.

Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's administrative expenses from the Arizona Benefits Fund, excluding Problem Gambling, are limited to the greater of \$8,000,000, or 9% of state tribal gaming revenues. The department can expend the actual 9% level or the expenditure authority level, whichever is lower.

In FY 2024, Gaming had the authority to spend \$13,740,100 for administrative expenses. This consists of \$13,590,000 from the FY 2024 Arizona Benefits Fund Operating appropriation in the enacted budget. The enacted budget amount was selected based on the department's spending patterns and is not derived from the 9% calculation. In addition, Gaming was appropriated \$150,100 from the Fantasy Sports Contest Fund.

In FY 2025, 9% of tribal gaming revenues are forecasted to be \$16,382,700, based on the department's projection of state tribal contribution revenue of \$182,030,000. However, the budget continues to appropriate \$13,590,100 from the Arizona Benefits Fund to cover the department's administrative expenses.

#### **Problem Gambling**

The budget includes \$3,320,000 in FY 2025 for Problem Gambling, which consists of \$3,020,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues. The department can expend the actual 2% level or the expenditure authority level, whichever is lower.

In FY 2024, Gaming had the authority to spend \$3,020,000, based on the FY 2024 Arizona Benefits Fund Problem Gaming appropriation in the enacted budget. The enacted budget amount was selected based on the department's spending patterns and is not derived from the 2% calculation.

In FY 2025, 2% of tribal gaming revenues are forecasted to be \$3,640,600, due to a projected increase in tribal contributions. However, the budget continues to appropriate \$3,020,000 from the Arizona Benefits Fund to cover the department's problem gambling expenses. (See *Other Issues – Tribal Gaming Revenues* section for additional details.)

**Event Wagering Administrative Costs**

In addition to the administrative costs listed above that are subject to the legislative appropriation, the department may spend up to 10% of revenue from the non-appropriated Event Wagering Fund on the regulation of event wagering.

Given the enacted budget revenue forecast for event wagering license and fee collections, Gaming is estimated to have the authority to spend \$3,510,000 in FY 2024 and \$3,850,800 in FY 2025 from the Event Wagering Fund. (See Other Issues – Event Wagering/Fantasy Sports Forecast section for additional details.)

The budget includes a General Appropriation Act footnote requiring the department to report on administrative spending from the Event Wagering Fund by August 1, 2024.

**Operating Budget**

The budget includes \$13,740,100 and 82.3 FTE Positions in FY 2025 for the operating budget. These amounts consist of:

	<b>FY 2025</b>
Arizona Benefits Fund	\$13,590,000
Fantasy Sports Contest Fund	150,100

These amounts are unchanged from FY 2024.

**Arizona Breeders’ Award**

The budget includes \$250,000 from the Racing Regulation Fund in FY 2025 for the Arizona Breeders’ Award. This amount is unchanged from FY 2024.

This line item funds awards to the breeder of every winning horse foaled in the state. In FY 2025, this line item will fund awards equal to 25% of the purse won by the horse.

**Casino Operations Certification**

The budget includes \$2,330,300 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2025 for Casino Operations Certification. Adjustments are as follows:

**Statewide Adjustments**

The budget includes an increase of \$30,900 from the Tribal-State Compact Fund in FY 2025 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and

all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

**Contract Veterinarian**

The budget includes \$175,000 from the General Fund in FY 2025 for a Contract Veterinarian. This amount is unchanged from FY 2024.

Monies in the line item are to be used to contract a veterinarian and veterinarian's assistant to assist with pre-race inspections of horses in an effort to reduce the number of horse fatalities as a result of racing in the state. A General Appropriation Act footnote requires the department to report on a quarterly basis the number of equine deaths and injuries that occur as a result of a horse race and the commercial live racing facility where each incident occurred. The report must also include the number of pre-race inspections performed by a veterinarian employed by or contracting with the state.

**County Fairs Livestock and Agriculture Promotion**

The budget includes \$6,029,500 from the General Fund in FY 2025 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2024.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor.

**Division of Racing**

The budget includes \$2,448,500 and 40.5 FTE Positions in FY 2025 for operating costs associated with the Division of Racing. These amounts consist of:

Racing Regulation Fund	2,343,300
Racing Regulation Fund - Unarmed Combat Subaccount	105,200

Adjustments are as follows:

**Statewide Adjustments**

The budget includes an increase of \$12,600 from the Racing Regulation Fund in FY 2025 for statewide adjustments.

The Division of Racing regulates the pari-mutuel horse racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties.

The Regulatory Wagering Assessment (RWA) is a regulatory assessment from each commercial racing permittee payable from amounts deducted from pari-mutuel pools by the permittee. The Arizona Administrative Code section R19-2-205B sets the RWA at 0.75% from May 1-Sep 30 and 0.85% from October 1-April 30 each year. However, ongoing session law overrides those rates and sets the RWA at 0.5% for FY 2025. All monies received from the RWA are deposited into the Racing Regulation Fund, which is the primary funding source for the Division of Racing.

The Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission, which is responsible for licensing, investigating, and regulating professional boxing and nontraditional fighting contests within Arizona. The budget includes \$105,200 from the Racing Regulation Fund - Unarmed Combat Subaccount in FY 2025 as part of the Division of Racing line item to provide funding for the Division of Boxing and Mixed Martial Arts.

**Event Wagering Application Fee Refund**

The budget includes no funding in FY 2025 for the Event Wagering Application Fee Refund line item. Adjustments are as follows:

**Remove One-Time Funding**

The budget includes a decrease of \$(600,000) from the General Fund in FY 2025 to remove one-time funding for the department to issue refunds for event wagering application fees associated with the following Indian tribes:

- Cocopah Indian Tribe
- Colorado River Indian Tribe
- Pascua Yaqui Tribe
- Yavapai-Apache Nation
- White Mountain Apache Tribe
- Havasupai Tribe

The monies in this line item are to be used to reimburse these tribes that paid the required \$100,000 application fee for an event wagering operator license, but did not receive one because of the Tribal-State Gaming Compact's limit of 10 tribal licenses.

**Horseracing Integrity and Safety Act Assessment**

The budget includes \$1,355,100 from the Racing Regulation Fund in FY 2025 for the Horseracing Integrity and Safety Act (HISA) Assessment line item. Adjustments are as follows:

**Shift HISA Costs to Racing Regulation Fund**

The budget includes a decrease of \$(355,100) from the General Fund and a corresponding increase of \$355,100 from the Racing Regulation Fund in FY 2025 to shift fund sources for the HISA Assessment line item.

**Increase HISA Assessment Funding**

The budget includes an increase of \$1,000,000 from the Racing Regulation Fund in FY 2025 to increase HISA assessment funding.

Beginning in 2022, the federal Horseracing Integrity and Safety Authority charges an annual regulatory fee based on the previous year's racing starts and purses. A General Appropriation Act footnote directs the department to use these monies to directly pay the calendar 2024 assessment levied by the Horseracing Integrity and Safety Authority.

**Problem Gambling**

The budget includes \$3,320,000 and 5 FTE Positions in FY 2025 for Problem Gambling. These amounts consist of:

Arizona Benefits Fund	3,020,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2024.

Monies in this line item are for the department to provide problem gambling prevention, treatment, and education programs.

**Racetrack Capital Projects and Maintenance and Operation Funding**

The budget includes \$1,500,000 in FY 2025 for the Racetrack Purse and Maintenance and Operation Funding line item. Adjustments are as follows:

**Remove One-Time Funding**

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2025 to remove one-time funding for Racetrack Capital Projects and Maintenance and Operation funding.

**Increase One-Time Funding**

The budget includes a one-time increase of \$1,500,000 from the General Fund in FY 2025 for Racetrack Capital Projects and Maintenance and Operation Funding.

Monies in this line item were distributed to a commercial live racing permittee located in Maricopa County for capital projects and track maintenance and operations, including compliance costs associated with the Horseracing Integrity and Safety Act of 2020, as required by a General Appropriation Act footnote.

**Racetrack Purse and Maintenance and Operations Funding**

The budget includes no funding in FY 2025 for the Racetrack Purse and Maintenance and Operations Fund line item. This amount is unchanged from FY 2024.

Monies in this line item were to enhance purse structure and for racetrack purse and maintenance and operations. A General Appropriation Act footnote directed the department to distribute the monies to commercial live racing permittees as follows:

- \$4,231,800 to a commercial live racing permittee located in Maricopa County.
- \$815,600 to a commercial live racing permittee located in Yavapai County.
- \$349,500 to a commercial live racing permittee located in Pima County.

**Racing Purse Enhancement**

The budget includes \$4,000,000 from the General Fund in FY 2025 for the Racing Purse Enhancement line item. Adjustments are as follows:

**Remove Ongoing Funding**

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2025 to remove ongoing funding for racing purse enhancement.

**Increase One-Time Funding**

The budget includes a one-time increase of \$4,000,000 from the General Fund in FY 2025 for racing purse enhancement.

Monies in this line item are to be used to enhance racing purses and promote the sport for eligible races held in Arizona. A General Appropriation Act footnote directs the monies to be distributed to a nonprofit horsemen's organization that has represented horsemen in racing meetings since 1988.

**Other Issues**

**Statutory Changes**

The Amusements Budget Reconciliation Bill makes the following statutory changes:

- As session law, continue to set the Regulatory Wagering Assessment at 0.5% in FY 2025 only.
- As session law, change the requirement that racehorses need to receive "gate approval" every 30

days to every 60 days in 2024 and 2025. "Gate approval" means a demonstration to confirm a racehorse has been trained on how to safely enter and exit the starting gate prior to racing at a commercial racetrack.

**Existing Tribal Compacts**

The Arizona Tribal-State Gaming Compacts regulate tribal gaming activity of Class III (casino style) gaming on tribal lands in Arizona. The Compacts were initially passed in November 2002 as Proposition 202 and were renegotiated in 2021.

As of June 2024, there are 16 tribes operating a total of 25 Class III casinos in Arizona. There are also 6 additional tribes which do not have casinos but have slot machine rights that they may lease to tribes with casinos.

In 2002, Proposition 202 included provisions authorizing subsequent amendments to the compacts. Under that process, the Tribal-State Gaming Compacts were renegotiated in March 2021, with the required federal compact approval occurring in May 2021.

In addition, Laws 2021, Chapter 234 expanded non-tribal gaming in the state and authorized event wagering, fantasy sports contests, and certain Lottery games. (Please see the Department of Gaming and Lottery Commission sections of the FY 2022 Appropriations Report for more information).

**Event Wagering/Fantasy Sports Revenue Forecast**

The budget revenue forecast includes a projection of state General Fund gaming revenues (from both event wagering and fantasy sports) through FY 2027. For both activities, the estimates include the relevant license fees along with privilege fees that are assessed on operator "net win". The projections are as follows:

- FY 2023 (actual) – \$49.4 million
- FY 2024 – \$31.6 million
- FY 2025 – \$34.7 million
- FY 2026 – \$36.5 million
- FY 2027 – \$38.5 million

The short-term variation in gaming collections is due to technical timing issues: 1) The department did not deposit the initial round of event wagering operator license fees into the General Fund during FY 2022; and 2) The department only processed 61% of FY 2022 privilege fee revenue (event wagering and fantasy sports) for deposit in FY 2022, leaving the remainder to be deposited in FY 2023.

Given these issues, the FY 2023 actual amount incorporates the deposit from the initial license revenue from event wagering entities (\$750,000 each), along with the first annual license renewal fee for event wagering entities (\$150,000 each). The FY 2023 total also incorporates the FY 2022 privilege fees that were delayed in being transferred to the General Fund until FY 2023.

The state will then return to a more normal pattern of gaming collections, with only the standard annual license renewal fee (\$150,000 each) being deposited in FY 2024 and the relevant privilege fees being deposited in a timely manner. The enacted budget forecast assumes that state gaming revenue will increase 9.7% in FY 2025 and 5.3% in FY 2026 and FY 2027.

**Tribal Gaming Revenues**

In FY 2023, state tribal gaming revenues were \$153,855,900. The budget assumes that state tribal gaming revenues will increase to a level of \$163,360,700 in FY 2024 and \$182,030,000 in FY 2025. These revenue estimates are from the department's FY 2025 budget request. Through the third quarter of FY 2024, tribal gaming contributions into the Arizona Benefits Fund were \$157.2 million. (See Table 1 for more info.)

<b>Table 1</b>				
<b>Tribal Gaming Distributions Pursuant to Proposition 202 <sup>1/</sup></b>				
<b>Recipient</b>	<b>Proposition 202 Formula</b>	<b>FY 2023 Actuals <sup>1/</sup></b>	<b>FY 2024 Projected <sup>1/</sup></b>	<b>FY 2025 Projected</b>
State Government Distribution	88% of total	\$ 153,855,900	\$163,360,700 <sup>2/</sup>	\$182,030,000 <sup>2/</sup>
Local Government Distribution <sup>3/</sup>	12% of total	<u>18,963,300</u>	<u>22,276,500</u>	<u>24,822,300</u>
<b>Total</b>	<b>100% of total</b>	<b>\$172,819,200</b>	<b>\$185,637,200</b>	<b>\$206,852,300</b>
<b>Allocation of State Government's Share</b>				
<b>Department of Gaming</b>				
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 13,440,000	\$ 13,590,000 <sup>4/</sup>	\$ 13,590,000 <sup>4/</sup>
Department of Gaming Problem Gambling	2%	<u>3,020,000</u>	<u>3,020,000</u> <sup>5/</sup>	<u>3,020,000</u> <sup>5/</sup>
<b>Subtotal-Department of Gaming</b>		<b>\$16,460,000</b>	<b>\$16,610,000</b>	<b>\$16,610,000</b>
<b>Other Distributions</b>				
Instructional Improvement Fund (Department of Education)	56% of remainder	77,146,000	82,180,400	92,635,200
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	38,340,900	41,090,300	46,317,600
Arizona Wildlife Conservation Fund	8% of remainder	10,954,500	11,740,000	13,233,600
Tourism Fund	8% of remainder	<u>10,954,500</u>	<u>11,740,000</u>	<u>13,233,600</u>
<b>Subtotal-Other Distributions</b>		<b>\$137,395,900</b>	<b>\$146,750,700</b>	<b>\$165,420,000</b>
<b>Total</b>		<b>\$153,855,900</b>	<b>\$163,360,700</b>	<b>\$182,030,000</b>

<sup>1/</sup> The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

<sup>2/</sup> Based on ADG projections, the budget projects a 6.2% increase in FY 2024 and 11.4% in FY 2025 for tribal contributions to the Arizona Benefits Fund. The budget forecast reflects the revenue projections included in the ADG budget request, which includes changes from the implementation of the new 2021 Tribal Compacts.

<sup>3/</sup> Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

<sup>4/</sup> A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. Given the department's spending patterns, the FY 2024 appropriation was \$13,590,000 (an amount not calculated based on the 9% limit) and the FY 2025 budget continues that amount. The department can only expend at the actual 9% level or the expenditure authority level, whichever is lower.

<sup>5/</sup> A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. Given the department's spending patterns, the FY 2024 appropriation was \$3,020,000 (an amount not calculated based on the 2% limit) and the FY 2025 budget continues that amount. The department can only expend at the actual 2% level or the expenditure authority level, whichever is lower.