

BALLOT PROPOSITION #200
Tribal-State Gaming Compact, Scholarship and Elderly Care Act of 2002

Fiscal Impact Summary

Proposition 200 allows an increase in the number of slot machines at Indian casinos. Tribes that choose to participate would share 3% of net casino profits with the state. Several issues could affect the actual level of revenues generated by this proposition. It is difficult to predict in advance how these issues will affect the earnings per machine and the level of participation. The following fiscal estimates, therefore, represent potential maximum impacts, rather than a specific prediction of the ultimate outcome.

This proposition could possibly generate state government revenues of up to \$32 million from the Indian tribes for specific purposes. The proposition could also possibly generate up to an additional \$5.8 million in revenue to pay for state Indian gaming enforcement costs.

	FISCAL YEAR		
	2003	2004	2005
STATE REVENUES			
Arizona College Scholarship and Elderly Care Fund	\$-0-	Up to \$32 million	Up to \$33 million
Tribal-State Compact Fund	\$-0-	Up to \$5.8 million	Up to \$6.1 million

FISCAL ANALYSIS

Description

Proposition 200 continues Indian gaming in Arizona. It increases the maximum possible number of tribal gaming devices to 21,800 and permits inter-tribal transfers of gaming devices. Participating tribes would share 3% of their gaming revenues (after operating expenses) with the state. The Arizona College Scholarship and Elderly Care Fund is established to receive 3% of net income from tribal gaming. Monies in the fund are to be used for various scholarships and senior citizen's services according to a statutory formula. The number of gaming devices would grow annually according to population growth.

Estimated Impact

Proposition 200 allows an increase in the number of slot machines at Indian casinos. Participating tribes would share 3% of net casino profits with the state. Several issues could affect the actual level of revenues generated by this proposition. It is difficult to predict in advance how these issues will affect the earnings per machine and the level of participation. The following fiscal estimates, therefore, represent potential maximum impacts, rather than a specific prediction of the ultimate outcome.

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The proponents of the initiative estimate \$40 million in annual revenues to the Arizona College Scholarship and Elderly Care Fund from the proposition, based on their assumptions about daily net win per device and casino profitability. The proponents also estimate an additional \$5 million annually to the Tribal-State Compact Fund for enforcement costs.

Analysis

Certain financial information could affect the actual level of revenues generated by this proposition. By law, actual Arizona tribal gaming data is confidential and is not available for this analysis. Due to this limitation, our estimate is based on assumptions about revenue per gaming device and gaming profitability. Since we do not know the current gross gaming revenue earned per active gaming device in Arizona, we developed a range of "net win" estimates from \$75,000 per machine to \$125,000 per machine. Net win represents the difference between the amount wagered and the amount paid out in prizes. In comparison with the net win per gaming device of other gaming states, the low end of the range is between Indiana (\$90,000/slot/year) and Iowa (\$66,000/slot/year). The high end of the range is close to New Mexico (\$126,000/slot/year).

Legal issues could also affect the actual level of revenues generated by this proposition. We cannot predict in advance how these issues may be resolved.

Given both these financial and legal unknowns, our analysis represents an estimate of the possible maximum revenue generated. The actual result could vary from the maximum depending on a number of factors.

According to the Arizona Department of Gaming, Arizona tribes currently operate approximately 9,000 gaming devices in Arizona. The proposition bases growth in the authorized number of slot machines on annual Department of Economic Security population growth estimates. Under this provision, this number could grow to 21,800 in the first year of the compact and would increase to 23,100 by the 3rd year based on University of Arizona population growth forecasts. These estimates include inter-tribal transfers of gaming devices. This proposition allows for a transfer arrangement to be negotiated among the transferring tribes. We lack the financial information to predict in advance how the transfer arrangements will affect the number of slot machines.

With the maximum of 21,800 tribal slot machines permitted by this proposition and an average of \$75,000 per device, net win would reach \$1.6 billion in FY 2004 and \$1.7 billion in FY 2005. At a net win per device of \$125,000, total net win would reach \$2.7 billion in FY 2004 and \$2.8 billion in FY 2005 based on the number of gaming devices allowed by the initiative.

The proposition also allows keno and table games at each operating gaming facility. While we acknowledge that these games will provide additional revenue to the state, we believe that the revenue impact will be small relative to the revenue impact of the gaming devices.

Under the concept of market saturation, there is a maximum amount of wagering that can be supported by any given market. Once a market has reached its saturation point, any additional gaming devices will have no impact on the total amount of possible net win earned. One researcher has suggested that when a market reaches its saturation point, the maximum amount of net win that can be earned is 1.3% of personal income. For Arizona, the University of Arizona estimates that personal income will be \$150 billion for CY 2003, \$163 billion for CY 2004, and \$175 billion for CY 2005. Adjusting these estimates to a fiscal year basis yields \$157 billion for FY 2004 and \$169 billion for FY 2005. Applying a 1.3% rate suggests the market saturation would be reached at \$2.0 billion in FY 2004 and \$2.2 billion in FY 2005.

Another gaming industry researcher suggests that market saturation is achieved at a level equal to \$600 per adult in the market population. Based on U.S. Census Bureau estimates, there are approximately 3.9 million adults in Arizona. This equates to an annual market saturation of approximately \$2.3 billion using this approach.

Though we cannot independently determine the market saturation point for Arizona, we would note that the maximum amount of net win possible through either method of determining saturation is lower than the top end of our range of revenue possibilities. Therefore, we have adjusted the upper bound of our range to accommodate the average of the two separate estimates of market saturation. This equates to maximum revenue estimate of \$2.2 billion in FY 2004 and \$2.3 billion in FY 2005.

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The estimate of deposits to the Arizona College Scholarship and Elderly Care Fund is based on applying a 3% rate to the annual net income from gaming. The initiative defines annual net income as “the annual total amount of money collected from Class III gaming, less any amount paid out in prizes or paid for prizes awarded, annual labor and other operating expenses, annual interest expenses, depreciation, and amortization”.

Determining an estimate of net income from tribal gaming requires first calculating the net win from gaming as we have done above and then assuming a profit percentage.

Due to the confidentiality constraints mentioned above, we do not have access to tribal casino profit statements. There is a potential for a wide variation in the actual profitability of each tribal gaming operation, as well as the basis used for determining profits. The definition of net income does not preclude tribes from offsetting net win revenues with operating expenses unrelated to gaming, thereby reducing their net income. Lacking specific knowledge of how profits will be calculated by each tribe, we refer to a study of tribal casino profits in Wisconsin that found a profit percentage of 48% for that state.

Applying this percentage to the range of net win described above results in an estimate of net income at the assumed profit margin. Applying the 3% distribution rate to the estimated profit results in a maximum range from \$23 million to \$32 million in FY 2004 and \$24 million to \$33 million in FY 2005. These monies would be deposited into the Arizona College Scholarship and Elderly Care Fund, and distributed for various scholarships and senior citizen’s services pursuant to a statutory formula.

It is likely that there would be a 6-month ramp-up period before the tribal casinos are able to fully implement the terms of this proposition. Therefore, we have not attempted to estimate a FY 2003 impact from the proposition.

The proposition continues the Tribal-State Compact Fund for paying state gaming enforcement and certification costs and sets a \$500 per machine charge for deposit in the fund. The projected growth in gaming devices results in maximum FY 2004 revenues of \$10.9 million and FY 2005 revenues of \$11.2 million. This represents an FY 2004 increase of \$5.8 million and an FY 2005 increase of \$6.1 million above the current appropriation of \$5.1 million from the Tribal-State Compact Fund for the Department of Gaming’s enforcement and certification programs.

Local Government Impact

The proposition would have no local government impact.

7/23/02

A.R.S. § 19-123 requires the Joint Legislative Budget Committee Staff to prepare fiscal impact estimates for ballot initiative measures. This estimate was prepared by Tom Mikesell (602-542-5491).
