

**BALLOT PROPOSITION #201
Fair Gaming Act**

Fiscal Impact Summary

Proposition 201 allows an increase in the number of slot machines at Indian casinos and permits horse and dog racetracks to operate slot machines. Racetracks that choose to participate would share 40% of their gaming revenues with the state and tribes that choose to participate in revenue sharing would provide 8% of their gaming revenues to 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 \$137 million from the Indian tribes. The proposition could possibly generate state and local government revenues of up to \$195 million from the racetracks. At this potential level of revenue from the tribes and the racetracks, up to \$178 million would be deposited in the state's General Fund for any use and up to \$154 million would be earmarked for specific purposes. The proposition could also possibly generate up to an additional \$5.3 million in revenue to pay for state Indian gaming enforcement costs. The proposition also provides \$10 million from the state's General Fund for state racetrack gaming enforcement costs.

	FISCAL YEAR		
	2003	2004	2005
STATE/LOCAL REVENUES			
State General Fund	\$-0-	Up to \$178 million	Up to \$178 million
Other State/Local Funds	\$-0-	Up to \$154 million	Up to \$154 million
Tribal-State Compact Fund	\$-0-	Up to \$5.3 million	Up to \$5.3 million

FISCAL ANALYSIS

Description

Proposition 201 continues Indian gaming in Arizona and also allows horse and dog racetracks to operate gaming devices. It increases the maximum possible number of tribal gaming devices from 14,675 to 19,600, while also authorizing up to 6,450 new gaming devices at racetracks. The racetracks are required to share 40% of their gaming revenue with the state. Participating tribes would contribute 8% of their gaming revenues (prior to operating expenses) with the state if they choose to enter into new compacts that allow table gaming, transfers of slot machines between tribes, and 5-year population-based increases. Revenues from the tribal casinos are deposited in the state General Fund. Revenues from racetrack slot machines are distributed among 17 recipients for purposes such as education, health care for the elderly, police, fire, and emergency services, and the state General Fund, among others.

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Estimated Impact

Proposition 201 allows an increase in the number of slot machines at Indian casinos and permits horse and dog racetracks to operate slot machines. Racetracks that choose to participate would share 40% of their gaming revenues with the state and local governments and tribes that choose to participate in revenue sharing would provide 8% of their gaming revenues to 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 \$137 million from the Indian tribes. The proposition could possibly generate state and local government revenues of up to \$195 million from the racetracks. At this potential level of revenue from the tribes and the racetracks, up to \$178 million would be deposited in the state's General Fund for any use and up to \$154 million would be earmarked for specific purposes. The proposition could also possibly generate up to an additional \$5.3 million in revenue to pay for state Indian gaming enforcement costs. The proposition also provides \$10 million from the state's General Fund for state racetrack gaming enforcement costs.

The proponents of this proposition estimate that it could generate new revenues for the state of \$150 million from tribal gaming and \$200 million from racetrack gaming, for a total of \$350 million annually, based on their assumptions.

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, this estimate relies on assumptions about revenue per slot machine and table game. 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 by the casinos. 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.

Tribal Casinos

According to the Department of Gaming, there are approximately 9,000 slot machines operating in Arizona, though the current Indian gaming compacts authorize 14,675 machines. Some rural tribes do not presently use their full slot machine allocation. Under this proposition, the number of slot machines in use could potentially increase from 9,000 to 19,600. The estimate includes inter-tribal transfers of gaming devices. The proposition includes a mandatory annual transfer fee equal to 50% of slot earnings that must be paid by the tribe receiving the transferred slot machine. We lack the financial information to predict in advance how the transfer fee will affect the number of slot machines.

If the maximum of 19,600 tribal slot machines permitted by this proposition were operated at an average of \$75,000 per machine, net win would be \$1.5 billion. At an average of \$125,000 per machine, net win for the state would reach \$2.5 billion.

As noted, this proposition also allows table games such as blackjack and poker. 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.

With the maximum of 19,600 slot machines, the tribal revenue sharing rate at 8% of net win would generate from \$118 million to \$196 million for the state, depending on the net win per machine. All of this revenue would be deposited in the General Fund.

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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.

Combined with racetrack casino gaming, the high end of the maximum range may exceed the market saturation point. This issue is discussed in the summary section below.

The proposition could result in added administrative and regulatory costs for the Department of Gaming due to the increased number of gaming devices. The proposition continues the existing arrangement for covering the Department of Gaming's costs through deposits into the Tribal-State Compact Fund. Currently, the Department of Gaming collects a \$500 fee each year for each slot machine operated in the state. If all tribes enter into expanded compacts and the number of tribal slot machines reaches the maximum allotment of 19,600, the incremental number of machines would provide an additional \$5.3 million to the Tribal-State Compact Fund.

Racetrack Slot Machines

There are currently no slot machines permitted at Arizona racetracks. This proposition would allow the tracks to operate up to 6,450 slot machines at a maximum of 10 facilities. According to the Department of Racing, there are 5 racetracks that currently qualify under this proposition to operate gaming devices, and these tracks would be permitted to have 3,950 slot machines. The Department of Racing estimates that the number of devices in use under this proposition would likely rise to 5,600, based on 8 existing racetracks qualifying for gaming devices. It is also possible, however, that if this proposition passes, other racetracks would act to qualify for slot machines, so that in time all 6,450 authorized slot machines would be utilized. For this analysis, we assume that 5,600 slot machines would be the maximum number in use at racetracks in the short term.

If the 5,600 racetrack slot machines produce revenues of \$75,000 per year, racetrack gaming revenues would be \$420 million. If the racetrack slot machines produce revenues of \$125,000 per year, the tracks would have gaming revenues of \$700 million. With the racetrack gaming contribution rate at 40%, the low end of the maximum range would generate \$168 million in FY 2004 for the state. The high end of the maximum range would generate \$280 million in FY 2004 for the state. This revenue would be deposited among 17 recipients for purposes such as education, health care for the elderly, police, fire and emergency service, and the state General Fund.

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

Combined with the expansion of tribal gaming, the high end of the maximum range may exceed the market saturation point. This issue is discussed in the summary section below.

The proponents of this proposition hired Urban System, Inc. to estimate the state revenue impact of allowing the racetracks to operate gaming devices. Based on economic and demographic factors, Urban System estimated that putting 4,550 slot machines at Arizona racetracks and applying a tax rate of 40% would generate state tax revenues of \$170 million in calendar year 2004.

The proposition would result in increased regulatory costs for the Department of Racing. As the state agency that would be in charge of regulating racetrack gaming, Racing estimates that it would need an estimated \$13 - \$16 million in addition to its current budget. The proposition appropriates \$10 million from the General Fund in FY 2003 to Racing to help pay for these costs.

Summary

Prior to considering market saturation, the maximum combined revenue impact of this proposition would be \$118 - \$196 million from tribal gaming and another \$168 million - \$280 million from racetrack gaming, for a maximum total of \$268 million - \$476 million. Under the concept of market saturation, there is a maximum amount of wagering that can be supported by any given market. Once a market reaches 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 individuals are willing to spend up

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to 1.3% of their personal income on gaming. This assumption is based on data from other jurisdictions in which the supply of gaming devices matches the demand, and market saturation occurs. The University of Arizona estimates that total personal income for the state will be \$150.4 billion in calendar year 2003. At 1.3% of personal income, the maximum amount of gaming revenue in Arizona would be \$2.0 billion in 2003.

Another gaming industry researcher suggests that in a saturated market adults are willing to spend up to \$600 on gaming. Using Census Bureau data, there are approximately 3.9 million adults in Arizona. If each of them spends \$600 on gaming, then market saturation would occur when net win reaches \$2.3 billion.

The maximum range, in which we assume that the average gaming device produces revenues from \$75,000 - \$125,000, results in net win of \$1.5 billion - \$2.5 billion from tribal casinos and another \$0.4 billion - \$0.7 billion from racetrack gaming. These numbers add up to a total net win maximum range of \$1.9 billion - \$3.2 billion.

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 maximum range of revenue possibilities. Therefore, we have adjusted the upper bound of our maximum range to accommodate the average of the 2 separate estimates of market saturation. This equates to a maximum net win of \$2.2 billion and a win per slot machine figure of \$87,300.

With a maximum net win of \$2.2 billion, our maximum revenue estimate ranges from \$286 million to \$332 million. Of the \$332 million, \$137 million is from tribal gaming and \$195 million is from racetrack gaming.

Local Government Impact

This proposition distributes some of the racetrack gaming contributions to local governments. Specifically, 12.5% of these revenues are deposited in the Transaction and Severance Tax Clearing Account for distribution to cities for providing police, fire, and emergency services.

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 Brian Schmitz and Tom Mikesell (602-542-5491).