



Gambling on Tribal Lands. Legislative Constitutional Amendment.

Official Title and Summary Prepared by the Attorney General

GAMBLING ON TRIBAL LANDS. LEGISLATIVE CONSTITUTIONAL AMENDMENT.

- Modifies state Constitution's prohibition against casinos and lotteries, to authorize Governor to negotiate compacts, subject to legislative ratification, for the operation of slot machines, lottery games, and banking and percentage card games by federally recognized Indian tribes on Indian lands in California, in accordance with federal law.
- Authorizes slot machines, lottery games, and banking and percentage card games to be conducted and operated on tribal lands subject to the compacts.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Uncertain fiscal effect on state and local tax revenues ranging from minor impact to significant annual increases.
- State license fees of tens of millions of dollars each year available for gambling-related costs and other programs.

Final Votes Cast by the Legislature on SCA II (Proposition 1A)

Assembly: Ayes 75	Senate: Ayes 35
Noes 4	Noes 0

Analysis by the Legislative Analyst

BACKGROUND

Gambling in California

The State Constitution and various other state laws limit the types of legal gambling that can occur in California. The State Constitution specifically:

- Authorizes the California State Lottery, but prohibits any other lottery.
- Allows horse racing and wagering on the result of races.
- Allows bingo for charitable purposes (regulated by cities and counties).
- Prohibits Nevada- and New Jersey-type casinos.

Other state laws specifically prohibit the operation of slot machines and other gambling devices (such as roulette). With regard to card games, state law prohibits: (1) several specific card games (such as twenty-one), (2) "banked" games (where the house has a stake in the outcome of the game), and (3) "percentage" games (where the house collects a given share of the amount wagered).

State law allows card rooms, which can operate any card game not otherwise prohibited. Typically, card room players pay a fee on a per hand or per hour basis to play the games.

Gambling on Indian Land

Gambling on Indian lands is regulated by the 1988 federal Indian Gaming Regulatory Act (IGRA). The IGRA defines gambling under three classes:

- **Class I** gambling includes social games and traditional/ceremonial games. An Indian tribe can offer Class I games without restriction.
- **Class II** gambling includes bingo and certain card games.

Class II gambling, however, specifically *excludes* all banked card games. An Indian tribe can offer only the Class II games that are permitted elsewhere in the state.

- **Class III** gambling includes all other forms of gambling such as banked card games (including twenty-one and baccarat), virtually all video or electronic games, slot machines, parimutuel horse race wagering, most forms of lotteries, and craps.

An Indian tribe can operate Class III games only if the tribe and the state have agreed to a tribal-state compact that allows such games. The compact can also include items such as regulatory responsibilities, facility operation guidelines, and licensing requirements. After the state and tribe have reached agreement, the federal government must approve the compact before it is valid.

Gambling on Indian Lands in California

According to the federal Bureau of Indian Affairs, there are over 100 Indian rancherias/reservations in California. Currently, there are about 40 Indian gambling operations in California, which offer a variety of gambling activities.

In the past two years there have been several important developments with regard to Indian gambling in California:

- **April 1998.** The Governor concluded negotiations with the Pala Band of Mission Indians to permit a specific type of Class III gambling on tribal land. The compact resulting from these negotiations—the "Pala" Compact—was subsequently signed by 10 other tribes. These 11 compacts were approved in legislation in August 1998.

- **November 1998.** State voters approved the Tribal Government Gaming and Economic Self-Sufficiency Act—Proposition 5. The proposition, which amended state law but not the State Constitution, required the state to enter into a specific compact with Indian tribes to allow certain Class III gambling activities.
- **November 1998.** A referendum on the August 1998 legislation approving the 11 Pala compacts qualified for this ballot (Proposition 29). Once qualified, this legislation was put "on hold" pending the outcome of the vote on Proposition 29.
- **August 1999.** Proposition 5 was ruled unconstitutional by the State Supreme Court on the basis that the measure would permit the operation of Nevada- and New Jersey-type casinos.
- **September 1999.** The Governor negotiated and the Legislature approved compacts with 57 tribes—including the tribes that signed the Pala compacts authorizing certain Class III games. These take the place of all previously approved compacts, including the Pala compacts. These new compacts, however, will become effective only if (1) this proposition is approved and (2) the federal government approves the compacts.

PROPOSAL

This proposition amends the State Constitution to permit Indian tribes to conduct and operate slot machines, lottery games, and banked and percentage card games on Indian land. These gambling activities could only occur if (1) the Governor and an Indian tribe reach agreement on a compact, (2) the Legislature approves the compact, and (3) the federal government approves the compact. (Although this proposition authorizes lottery games, Indian tribes can currently operate lottery games—subject to a gambling compact. This is because the State Constitution permits the State Lottery, and Indian tribes can operate any games already permitted in the state.)

As discussed above, the Governor and the Legislature have approved virtually identical tribal-state compacts with 57 Indian tribes in California. If this proposition is approved, those compacts would go into effect if approved by the federal government. (See Figure 1 for a brief description of these compacts' major provisions.)

FISCAL EFFECT

State and Local Revenue Impact

This measure would likely result in an increase in economic activity in California. The magnitude of the increase would depend primarily on (1) the extent to which tribal gambling operations expand and (2) the degree to which new gambling activity in California is from spending diverted from Nevada and other out-of-state sources (as compared to spending diverted from other California activities).

While the measure would likely result in additional economic activity in California, its impact on state and local revenues is less clear. This is because, as sovereign governments, tribal businesses and members are exempt from certain forms of taxation. For example, profits earned by gambling activities on tribal lands would not be subject to state corporate taxes. In addition, gambling on tribal lands is not subject to wagering taxes that are currently levied on other forms of gambling in California (horse race wagers, card rooms, and the Lottery). Finally, wages paid to tribal members employed by the gambling operation and living on Indian land would not be subject to personal income taxes.

Even with these exemptions, tribal operations still generate tax revenues. For example, wages paid to nontribal employees of the operations are subject to income taxation. In addition,

certain nongambling transactions related to the operations are subject to state and local sales and use taxes. However, on average, each dollar spent in tribal operations generates less tax revenue than an equivalent dollar spent in other areas of the California economy.

Given these factors, the *net* impact of this measure on state and local government revenues is uncertain. For example, revenues could increase significantly if the measure were to result in a large expansion in gambling operations and a large portion of the new gambling was spending that would have otherwise occurred outside of California (such as in Nevada). On the other hand, if the expansion of gambling were relatively limited or if most of the new gambling represented spending diverted from other areas in the state's economy that are subject to taxation, the fiscal impact would not be significant.

Other Governmental Fiscal Impacts

The measure could result in a number of other state and local fiscal impacts, including: regulatory costs, an increase in law enforcement costs, potential savings in welfare assistance payments, and an increase in local infrastructure costs. We cannot estimate the magnitude of these impacts.

Passage of this proposition would result in the implementation of tribal-state compacts approved in September 1999—assuming these compacts are approved by the federal government. Under these compacts, the tribes would pay license fees to the state totaling tens of millions of dollars annually. The state could spend this money on Indian gambling regulatory costs, other gambling-related costs, and other purposes (as determined by the Legislature).

Figure 1

September 1999 Compacts That Could Go Into Effect If Proposition 1A Passes

Major Provisions

- Slot Machines**
 - The compacts allow each tribe at least 350 slot machines.
 - Tribes may pay for licenses for additional machines, but generally may not operate more than 2,000 machines.
- Revenue Sharing Trust Fund**
 - Tribes will make quarterly payments into this fund based on the number of licensed slot machines they operate. The money will be used to provide annual payments to noncompact tribes and those tribes operating fewer than 350 machines. These payments could be up to \$1.1 million per tribe per year.
- Special Distribution Fund**
 - Tribes will make quarterly payments into this state fund (beginning in 2002) based on the number of machines they were operating as of September 1, 1999.
 - The Legislature could spend monies from the fund for the following statewide purposes: (1) grants for programs to address gambling addiction, (2) grants to the state and local governments affected by tribal gaming, (3) reimbursements of state regulatory costs, (4) payment of shortfalls in the Revenue Sharing Trust Fund, and (5) other purposes specified by the Legislature.
- Banked and Percentage Card Games**
 - The compact places no limit on the types or quantity of card games tribes could offer.
- Other Provisions**
 - The compacts authorize casino workers to unionize.
 - They set the age for gambling in Indian casinos at 18.

For text of Proposition 1A see page 90



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Argument in Favor of Proposition 1A

VOTE YES ON PROP 1A AND ENSURE THAT INDIAN SELF-RELIANCE IS PROTECTED ONCE AND FOR ALL.

As tribal leaders of California Indian Tribes, we have seen first-hand the transformation that Indian gaming has made in the lives of our people. Indian gaming on tribal lands has replaced welfare with work, despair with hope and dependency with self-reliance.

We are asking you to vote YES on Proposition 1A so we can keep the gaming we have on our reservations. We thank you for your past support and need your help now to protect Indian self-reliance once and for all.

We are joined by a vast majority of California's Indian Tribes that support Prop 1A, including the 59 Tribes who signed gaming compacts with Governor Davis.

For the past several years, a political dispute has threatened to shut down Indian casinos in California. To resolve this dispute, California's Indian Tribes asked voters last year to approve Proposition 5, the Indian Self-Reliance Initiative. With your help, Proposition 5 won overwhelmingly with 63 percent of the vote.

But big Nevada casinos that wanted to kill competition from California's Indian Tribes filed a lawsuit, and Prop 5 was overturned and ruled unconstitutional on a legal technicality.

So Prop 1A has been put on the March ballot to resolve this technicality and establish clearly that Indian gaming on tribal lands is legal in California.

For more than a decade, Indian casinos in California have provided education, housing and healthcare for Indian people, as well as jobs that have taken Indians off welfare. Today Indian gaming on tribal lands benefits all Californians by providing nearly 50,000 jobs for Indians and non-Indians and producing \$120 million annually in state and local taxes. After

generations of poverty, despair and dependency, there is hope. On reservations with casinos, unemployment has dropped nearly 50%; welfare has been cut by 68% and, in some cases, eliminated entirely.

Proposition 1A:

- Is a simple constitutional measure that allows Indian gaming in California. It protects Indian self-reliance by finally providing clear legal authority for Indian Tribes to conduct specified gaming activities on tribal lands.
- Shares Indian gaming revenues with non-gaming Tribes for use in education, housing, health care and other vitally needed services.
- Provides revenues for local communities near Indian casinos, for programs for gambling addiction and for state regulatory costs.
- Provides for tribal cooperation with local governments and for tribal environmental compliance.

If Proposition 1A fails, tribal gaming would face being shut down. This would be devastating for California Indian Tribes—and bad for California's taxpayers.

We are asking voters to protect Indian gaming on tribal land, so that we can preserve the only option most Tribes have to get our people off welfare. We are asking you to let us take care of ourselves and pay our own way. We urge you to vote YES on Proposition 1A.

ANTHONY PICO

Tribal Chairman, Viejas Band of Kumeyaay Indians

PAULA LORENZO

Tribal Chairperson, Rumsey Indian Rancheria

MARK MACARRO

Tribal Chairman, Pechanga Band of Luiseño Indians

Rebuttal to Argument in Favor of Proposition 1A

Proposition 1A is *not* about keeping tribal casinos open. It's about slot machines. Up to 100,000 of them.

Federal law says Indian casinos can offer any game that's legal anywhere in their state. Bingo, poker, lotteries, betting on horses . . . all legal here. Defeat of Proposition 1A won't change that. But they want video slot machines, the "crack cocaine" of gambling, which our Constitution prohibits.

More slot machines than the whole Las Vegas Strip. And blackjack. Games that have always been illegal in California.

Some tribes violated state and Federal law and brought in illegal slot machines.

Those illegal machines have made a few small tribes extremely rich . . . and they poured over \$75 million dollars into political campaigns in 1998! Over \$21 million of that came from the three tribes that signed Proposition 1A's argument—with only 630 total members on their reservations!

Proposition 1A would let Indian casinos operate as many as 100,000 slot machines, according to California's independent Legislative Analyst. 107 tribes, *each* entitled to run *two* casinos,

paying no state or Federal taxes on annual profits conservatively estimated between \$3.9 billion and \$8.2 billion—almost all from Californians.

Despite 1A's supporters' claims, Proposition 5 wasn't overturned by Nevada casinos on a "technicality." It was overturned by our *Supreme Court* because it violated California's *CONSTITUTION*. (So now they want to amend our Constitution!).

And Nevada? Nevada gambling companies are already being hired to run huge casinos that Proposition 1A will create.

Preserve our Constitution. **VOTE NO ON PROPOSITION 1A.**

BRUCE THOMPSON

Member, California Assembly

LEO McCARTHY

Former Lieutenant Governor of California

MELANIE MORGAN

Recovering Gambling Addict

Gambling on Tribal Lands. Legislative Constitutional Amendment.



Argument Against Proposition 1A

Proposition 1A and the Governor's compact with gambling tribes will trigger a massive explosion of gambling in California.

Supporters call it a "modest" increase. Let's see just how "modest."

- Allows 214 casinos, TWO for every tribe.
- Slot machines in California could jump to some 50,000-100,000.
- In 2003, tribes can negotiate another increase.
- Slot machines provide 80% of all casino revenues.
- 18-year-olds are not prohibited from casino gambling.
- Legalizes Nevada-style card games not allowed in California.
- Indian casinos will pay no state or federal corporation taxes.
- Felons can be hired to run tribal casinos.
- Local governments and citizens get no input on size or location.

Casinos won't be limited to remote locations. Indian tribes are already buying up prime property for casinos in our towns and cities. And they're bringing in Nevada gambling interests to build and run their casinos.

Now California card clubs and racetracks are demanding the right to expand their gambling to keep pace: telephone and computer betting from home, slot machines, blackjack and more. If 1A passes, they'll be next in line.

This is our last, best chance to avoid the Golden State becoming the casino state. Vote no on Proposition 1A.

BRUCE THOMPSON

Member, California State Assembly

A report funded by Congress reveals there are 5.5 million adult pathological or problem gamblers in this country, with another 15 million "at risk." About 700,000 pathological and problem gamblers live in California, with another 1.8 million

"at risk." That doesn't include a large number of teenage gamblers.

Experts tell us "Pathological gamblers engage in destructive behaviors, commit crimes, run up large debts, damage relationships with family and friends, and they kill themselves."

Proposition 1A would dramatically increase—probably double—this seriously troubled population by legalizing perhaps 50,000 to 100,000 slot machines, including interactive video games, the "crack cocaine" of gambling. These video slot machines very rapidly turn potential problem gamblers into pathological ones, warn treatment professionals.

California taxpayers will pay many millions in law enforcement costs and in health and welfare aid to troubled gamblers and their families.

Proposition 1A makes us another Nevada, virtually overnight. Do we really want that?

LEO McCARTHY

Former Lieutenant Governor of California

Addiction isn't something we like to talk about. It's a silent disease that devastates your family, ruins friendships and destroys you personally and financially. Like hundreds of thousands of women, I know from bitter experience the dark side of gambling.

I know that the closer the opportunity to gamble is, the easier it is, the more likely you are to fall into its trap. This isn't about chances in a church drawing. It's about losing your house payment, rent money or child's college fund, and lying and cheating to get more so you can try to win it back. It's about bankruptcy, divorce, domestic violence and suicide.

Proposition 1A puts gambling casinos right in everyone's backyard, where they could profit from \$1 billion to \$3 billion per year, much of it from weak and vulnerable gambling addicts.

I know. I was one. Please, vote NO on 1A.

MELANIE MORGAN

Recovering Gambling Addict

Rebuttal to Argument Against Proposition 1A

Opponents to Prop 1A are using the same misleading scare tactics they tried against Prop 5 in 1998. Their arguments are just as false now as they were then.

Prop 1A

- Supports Indian self-reliance by *ALLOWING TRIBES TO RUN REGULATED GAMING ON TRIBAL LAND* and with the same types of games that exist today.
- *PRESERVES MORE THAN \$120 MILLION ANNUALLY IN STATE AND LOCAL TAXES* generated by Indian gaming.
- *SHARES MILLIONS OF DOLLARS* in gaming revenues *WITH TRIBES THAT DON'T HAVE GAMING*, to fund health care, education, care for elders, and other vitally needed programs.
- *PROVIDES REVENUE FOR LOCAL GOVERNMENT AGENCIES AND PROBLEM GAMBLING PROGRAMS.*

"Proposition 1A and federal law strictly limit Indian gaming to tribal land. The claim that casinos could be built anywhere is totally false."

Carl Olson, former federal field investigator, National Indian Gaming Commission

"The majority of Indian Tribes are located on remote reservations and the fact is their markets will only support a limited number of machines."

Bruce Strombom, economist and author of the only comprehensive economic impact study of Indian gaming in California.

California voters, our Governor, the State Legislature and nearly all of California Indian Tribes support Prop 1A. *Vote YES on Prop 1A* to allow California Indian Tribes to continue on the path to self-reliance and for Indian gaming to benefit California taxpayers.

For more information on why claims against Prop 1A are false and misleading, call 1-800-248-2652 or visit our website at Yeson1A.net.

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ANTHONY PICO

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