

Department of Gaming

JLBC: Grant Nülle
 OSPB: Matt Gottheiner

DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC	FY 2009 JLBC
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	115.0	118.0	129.0	129.0
Personal Services	4,137,700	3,935,200	4,293,200	4,293,200
Employee Related Expenditures	1,243,500	1,250,300	1,374,400	1,374,400
Professional and Outside Services	702,900	817,100	1,113,700	1,113,700
Travel - In State	251,100	475,200	606,200	536,200
Travel - Out of State	76,200	87,400	113,400	113,400
Other Operating Expenditures	1,048,500	683,700	723,200	723,200
Equipment	226,400	751,100	835,100	751,100
OPERATING SUBTOTAL	7,686,300	8,000,000	9,059,200	8,905,200
SPECIAL LINE ITEMS				
Casino Operations Certification	1,921,000	2,054,600	2,186,900	2,173,900
Joint Monitoring System	0	0	1,188,100	2,442,100
Problem Gambling	1,782,100	1,812,800	2,724,600	3,185,100
AGENCY TOTAL	11,389,400	11,867,400	15,158,800	16,706,300

FUND SOURCES

Other Appropriated Funds

Arizona Benefits Fund	9,168,400	9,512,800	12,671,900	14,232,400
State Lottery Fund	300,000	300,000	300,000	300,000
Tribal State Compact Fund	1,921,000	2,054,600	2,186,900	2,173,900
SUBTOTAL - Other Appropriated Funds	11,389,400	11,867,400	15,158,800	16,706,300
SUBTOTAL - Appropriated Funds	11,389,400	11,867,400	15,158,800	16,706,300
TOTAL - ALL SOURCES	11,389,400	11,867,400	15,158,800	16,706,300

CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC		FY 2007 to FY 2009 JLBC	
	\$ Change	% Change	\$ Change	% Change
Other Appropriated Funds	3,291,400	27.7%	4,838,900	40.8%
Total Appropriated Funds	3,291,400	27.7%	4,838,900	40.8%
Total - All Sources	3,291,400	27.7%	4,838,900	40.8%

AGENCY DESCRIPTION — The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is funded by the Arizona Benefits Fund, which receives a portion of tribal gaming revenues to pay for regulation of tribal gaming and prevention of problem gambling. The agency is also responsible for certifying casino employees and vendors working with casinos. The department receives monies from the Tribal State Compact Fund through casino employee and vendor certification application fees.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	JLBC
• % of gaming facilities reviewed for compact compliance	28	100	100	100
• % of vendor customers satisfied with process	95	95	98	96

CHANGES FROM FY 2007

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, the department’s administration and regulatory expenses are capped based on the level of tribal revenues received by the state. This revenue cap limits the department’s operating budget and Special Line Item appropriations from the Arizona Benefits Fund, excluding Problem Gambling, to the greater of \$8,000,000 or 9% of state tribal gaming revenues. The JLBC Baseline includes \$10,247,300 for FY 2008 and \$11,347,300 for FY 2009, as 9% of projected FY 2008 and FY 2009 revenues is more than \$8,000,000. These amounts fall below the 9% cap by \$663,400 in FY 2008 and \$1,636,200 in FY 2009. Any unexpended administrative funds are transferred to the Department of Education’s Instructional Improvement Fund. (See Table 1 for more information on projected state revenues.)

Operating Budget

The JLBC includes \$9,059,200 and 96 FTE Positions from the Arizona Benefits Fund for the operating budget in FY 2008 and \$8,905,200 and 96 FTE Positions in FY 2009. These amounts would fund the following adjustments:

		<u>FY 2008</u>	<u>FY 2009</u>
Standard Changes	OF	\$8,000	\$8,000

The JLBC includes an increase of \$8,000 from the Arizona Benefits Fund in FY 2008 and FY 2009 for standard changes.

Enforcement Division

Staffing	OF	754,600	600,600
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The JLBC includes an increase of \$754,600 and 8 FTE Positions from the Arizona Benefits Fund in FY 2008 and an increase of \$600,600 and 8 FTE Positions in FY 2009 for statewide enforcement staffing increases. The number of tribal gaming facilities is expected to increase from 23 in FY 2007 to 26 in FY 2008 and FY 2009. The allotted number of gaming machines is projected to increase from 16,150 in FY 2006 to 19,000 in FY 2008 and FY 2009 based on an automatic across-the-board increase in the tribes’ allotment of gaming machines per the Tribal-State Gaming Compacts and the opening of 3 new casinos. The JLBC would increase the department’s enforcement staff in recognition of this additional workload. The FY 2008 amount includes \$154,000 in one-time equipment and vehicle expenditures.

Gaming Crimes

Prosecution	OF	296,600	296,600
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The JLBC includes an increase of \$296,600 from the Arizona Benefits Fund in FY 2008 and FY 2009 for federal prosecution of gambling crimes. The U.S. Attorney’s Office for the District of Arizona is responsible for prosecuting federal gaming crimes, as well as criminal violations of state gaming laws at tribal gaming facilities.

Due to the U.S. Attorney Office’s lack of resources to adequately prosecute crimes committed at tribal gaming facilities in Arizona, the department has entered into a Memorandum of Understanding with the U.S. Attorney’s Office to acquire the necessary federal prosecution services. The agreement eliminates the monetary threshold for prosecution of crimes and provides tribal regulators, security, and police with training to assist the federal prosecutor in more effectively preparing cases.

Special Line Items

Casino Operations Certification

The JLBC includes \$2,186,900 and 28 FTE Positions from the Tribal State Compact Fund for Casino Operations Certification in FY 2008 and \$2,173,900 and 28 FTE Positions in FY 2009. These amounts would fund the following adjustments:

Standard Changes	OF	2,000	2,000
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The JLBC includes an increase of \$2,000 from the Tribal State Compact Fund in FY 2008 and FY 2009 for standard changes.

Certification Division

Staffing	OF	142,300	129,300
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The JLBC includes an increase of \$142,300 and 2 FTE Positions from the Tribal State Compact Fund in FY 2008 and an increase of \$129,300 and 2 FTE Positions in FY 2009 for increased certification staffing. In FY 2008, 3 additional gaming facilities are expected to open and pursuant to the Tribal-State Gaming Compacts, each tribe will receive an automatic increase in gaming device allocations based on the state’s population growth rate. By FY 2009, the department expects to certify 445 new vendors and 10,710 new gaming employees. The 2 FTE Positions will annually perform approximately 110 background investigations on gaming vendors and 400 financial investigations of key gaming employees. The FY 2008 amount includes \$13,000 in one-time equipment expenditures.

Removal of One-Time

Equipment Monies	OF	(12,000)	(12,000)
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The JLBC includes a decrease of \$(12,000) from the Tribal State Compact Fund in FY 2008 and FY 2009 to remove one-time equipment monies. One-time monies were appropriated in FY 2007 to acquire a vehicle for the department’s motor pool.

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.

Joint Monitoring System

The JLBC includes \$1,188,100 from the Arizona Benefits Fund for a new Joint Monitoring System Special Line Item in FY 2008 and \$2,442,100 in FY 2009. These amounts would fund the following adjustments:

Joint Monitoring System OF 1,188,100 2,442,100

The JLBC includes an increase of \$1,188,100 from the Arizona Benefits Fund in FY 2008 and an increase of \$2,442,100 in FY 2009 to develop, implement, and administer the Joint Monitoring System. The Arizona Tribal-State Gaming Compacts require the department to implement an on-line electronic monitoring system that connects the department in real time to the slot accounting systems of each of the 17 urban gaming facilities. This system is referred to as the Joint Monitoring System. The FY 2008 monies would fund the installation of the system and connect the department to 6 of the urban tribal gaming facilities. A total of \$2,208,800 in one-time FY 2009 monies would connect the department to the remaining 11 urban gaming facilities, while \$233,300 would fund the ongoing cost of the first 6 sites. After FY 2009 the ongoing costs for connection to the 17 urban sites will be approximately \$700,000 per year. The Tribal-State Gaming Compacts do not require the Joint Monitoring System to be connected to the rural gaming facilities.

A Project Investment Justification will be submitted to the Government Information Technology Agency when the affected tribes have signed a revised appendix to the Tribal-State Gaming Compacts. The appendix will contain the regulatory language for the Joint Monitoring System. The JLBC would add a footnote reverting monies in this Special Line Item if the project does not get Information Technology Authorization Committee approval.

Problem Gambling

The JLBC includes \$2,724,600 and 5 FTE Positions from the Arizona Benefits Fund for Problem Gambling in FY 2008 and \$3,185,100 and 5 FTE Positions in FY 2009. This amount consists of:

Arizona Benefits Fund	2,424,600	2,885,100
Lottery Fund	300,000	300,000

These amounts would fund the following adjustments:

Standard Changes OF 400 400

The JLBC includes an increase of \$400 from the Arizona Benefits Fund in FY 2008 and FY 2009 for standard changes.

Gambling Treatment and Education OF 911,400 1,371,900

The JLBC includes an increase of \$911,400 and 1 FTE Position from the Arizona Benefits Fund in FY 2008 and \$1,371,900 and 1 FTE Position in FY 2009 for problem gambling treatment and education programs. The number of individuals receiving treatment from department

contracted treatment providers has grown from 447 in FY 2004 to 653 in FY 2006.

The JLBC Baseline would increase treatment funding by \$799,000 in FY 2008 and \$1,003,100 in FY 2009. The higher funding would increase the number of individuals treated to 835 in FY 2008 and 935 in FY 2009.

The JLBC Baseline would also provide for an automated treatment data management system (\$100,000), treatment outcome surveys (\$31,400), and a Project Manager FTE Position (\$65,400) to acquire and manage the data management system and survey contracts. The recommendation would also fund educational outreach efforts (\$219,000).

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state can be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The JLBC Baseline includes \$2,424,600 for FY 2008 and \$2,885,100 for FY 2009 from the Arizona Benefits Fund, which is equal to the 2% shares projected by the department. (See Table 1 below for more information on projected state revenues.)

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

New Footnotes

Monies for the Joint Monitoring System Special Line Item shall not be spent and will revert to the Instructional Improvement Fund if the Information Technology Authorization Committee does not approve the Project Investment Justification for the Joint Monitoring System.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Tribal Gaming Contributions

The Department of Gaming estimates that Arizona tribes collectively generated Aggregate Gross Gaming Revenue in FY 2006 of \$1,790,475,504.

Tribal organizations pay a percentage of their net win (gaming revenue minus payout) to the state. The contribution rates are as follows:

- 1% of the first \$25,000,000 in net win
- 3% of the next \$50,000,000
- 6% of the next \$25,000,000
- 8% of the net win in excess of \$100,000,000

Table 1 displays the actual distribution of the tribal gaming contributions in FY 2006 and the Department of Gaming’s projected distribution in FY 2007, FY 2008, and FY 2009.

Table 1

Tribal Gaming Distributions Pursuant to Proposition 202

<u>Recipient</u>	<u>Proposition 202 Formula</u>	<u>FY 2006 Actual</u> ^{1/}	<u>FY 2007 Projected</u>	<u>FY 2008 Projected</u>	<u>FY 2009 Projected</u>
State Government Contribution	88% of total	\$81,087,900	\$101,567,600	\$121,229,800	\$144,260,800
Local Government Contribution	12% of total	<u>11,057,400</u>	<u>13,850,100</u>	<u>16,531,300</u>	<u>19,671,900</u>
Total	100% of total	\$92,145,300	\$115,417,700	\$137,761,100	\$163,932,700
<u>Allocation of State Government's Share</u>					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 9,141,100	\$ 10,910,700 ^{2/}	\$ 12,983,500 ^{2/}
Department of Gaming Problem Gambling	2% of remainder	<u>1,621,800</u>	<u>2,031,400</u>	<u>2,424,600</u>	<u>2,885,100</u>
Subtotal-Department of Gaming		\$ 9,621,800	\$ 11,172,500	\$ 13,335,500	\$ 15,868,600
Instructional Improvement Fund (Department of Education)	56% of remainder	\$40,021,000	\$ 50,621,300	\$ 60,420,900	\$ 71,899,600
Trauma and Emergency Services Fund (Department of Health Services)	28% of remainder	20,010,500	25,310,600	30,210,400	35,949,800
Arizona Wildlife Conservation Fund	8% of remainder	5,717,300	7,231,600	8,631,600	10,271,400
Tourism Fund	8% of remainder	<u>5,717,300</u>	<u>7,231,600</u>	<u>8,631,600</u>	<u>10,271,400</u>
Total		\$81,087,900	\$101,567,600	\$121,229,800	\$144,260,800

1/ The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.
 2/ The JLBC Baseline would fund the department's budget at \$10,247,300 in FY 2008 and \$11,347,300 in FY 2009. Any unused funding below the full allocation would be transferred to the Instructional Improvement Fund.

SUMMARY OF FUNDS

FY 2006 Actual **FY 2007 Estimate**

Arizona Benefits Fund (GMA2350/A.R.S. § 5-601.02)

Partially-Appropriated

Source of Revenue: Tribal organizations, which have gaming compacts with the state, pay a portion of their gaming revenues to the state.

Purpose of Fund: Provide funding for the regulation of tribal gaming and prevention of problem gambling. In addition, the Arizona Benefits Fund distributes monies to several state funds. *(See individual agency pages for detailed information on each recipient.)*

Appropriated Funds Expended by Department of Gaming	9,168,400	9,512,800
Funds Transferred		
Instructional Improvement Fund	40,021,000	50,621,300
Trauma and Emergency Services Fund	20,010,500	25,310,600
Arizona Wildlife Conservation Fund	5,717,300	7,231,600
Tourism Fund	<u>5,717,300</u>	<u>7,231,600</u>
Total Funds Transferred	71,466,100	90,395,100
Year-End Fund Balance	568,900	507,000

State Lottery Fund (GMA2122/A.R.S. § 5-601)

Appropriated

Source of Revenue: Monies transferred to the department from the State Lottery Fund. In order to centralize the state's problem gambling efforts into one agency, the Legislature appropriated additional funding for the Department of Gaming's problem gambling program. The State Lottery Commission formerly operated a compulsive gambling treatment and information program that received \$300,000 from the State Lottery Fund until the monies were transferred to the Department of Gaming.

Purpose of Fund: Provide additional funding to the department's Problem Gambling program. These funds are expended to prevent and treat individuals suffering from problem gambling.

Funds Expended	300,000	300,000
Year-End Fund Balance	0	0

Tribal State Compact Fund (GMA2340/A.R.S. § 5-601)

Appropriated

Source of Revenue: The fund receives monies from gaming vendors and gaming employees to pay for their certification.

Purpose of Fund: To provide funding for the department's certification and administration costs.

Funds Expended	1,921,000	2,054,600
Year-End Fund Balance	1,656,000	1,421,400