

## Department of Gaming

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	115.3	155.8	155.8 <sup>1/</sup>
Personal Services	4,273,100	4,326,000	4,326,000
Employee Related Expenditures	1,742,200	1,876,200	1,876,200
Professional and Outside Services	394,600	465,900	465,900
Travel - In State	247,000	250,600	250,600
Travel - Out of State	38,700	40,200	40,200
Other Operating Expenditures	1,024,700	987,800	987,800
Equipment	280,000	348,800	348,800
<b>OPERATING SUBTOTAL</b>	<b>8,000,300</b>	<b>8,295,500</b>	<b>8,295,500</b>
<b>SPECIAL LINE ITEMS</b>			
Additional Operating Expenses	0	800,400	768,400 <sup>2/</sup>
Arizona Breeders' Award	0	0	200,000
Casino Operations Certification	1,726,400	2,089,900	2,081,800
County Fairs Livestock and Agriculture Promotion	0	1,779,500	1,779,500 <sup>3/</sup>
Division of Racing	0	2,894,200	2,886,000
Problem Gambling	1,747,700	2,287,000	2,287,000
<b>AGENCY TOTAL</b>	<b>11,474,400</b>	<b>18,146,500</b>	<b>18,298,200</b> <sup>4/</sup>
<b>FUND SOURCES</b>			
General Fund	0	1,779,500	1,979,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	9,448,000	11,082,900	11,050,900
Racing Regulation Fund	0	2,894,200	2,886,000
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,726,400	2,089,900	2,081,800
SUBTOTAL - Other Appropriated Funds	11,474,400	16,367,000	16,318,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>11,474,400</b>	<b>18,146,500</b>	<b>18,298,200</b>
Other Non-Appropriated Funds	0	1,370,000	1,370,000
<b>TOTAL - ALL SOURCES</b>	<b>11,474,400</b>	<b>19,516,500</b>	<b>19,668,200</b>

**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. Beginning in FY 2016, the responsibilities of the Department of Racing are transferred to the Department of Gaming.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) established the Division of Racing within the Department of Gaming as of July 3, 2015. While the FY 2016 General Appropriation Act

appropriated a separate budget for the Department of Racing, Chapter 19 transferred all appropriated monies of the Department of Racing to the Department of Gaming. The FY 2017 General Appropriation Act appropriated

<sup>1/</sup> Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2017.

<sup>2/</sup> 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 or before December 1, 2016 on the expected amount and purpose of expenditures from the Additional Operating Expenses line item for FY 2017. The report shall include the projected line item detail. (General Appropriation Act footnote)

<sup>3/</sup> 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 A.R.S. § 5-113, and to be administered by the Office of the Governor. (General Appropriation Act footnote)

<sup>4/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

monies to the Division of Racing in a Special Line Item within the Department of Gaming. (See the Division of Racing line item for more information.)

#### **Administrative Expenses**

The budget includes \$9,063,900 in FY 2017 for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$768,400 in a separate line item for additional operating budget expenditures.

The department's actual spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's administration 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.

In FY 2017, 9% of tribal gaming revenues are forecasted to be \$8,382,400. The budget includes \$8,382,400 in FY 2017, as 9% of projected revenue is greater than \$8,000,000. Of this amount, \$8,295,500 is for operating budget expenditures and \$86,900 is part of the separate line item.

The budget provides added flexibility should the Department of Gaming exceed forecasted tribal gaming revenues. The budget includes an added \$768,400 in a separate line item if revenues exceed projections, which incorporates the \$86,900 noted above.

#### **Problem Gambling**

The budget includes \$2,287,000 for Problem Gambling, which consists of \$1,987,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's actual spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. 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.

In FY 2017, 2% of tribal gaming revenues are projected to be \$1,862,800. In that circumstance, the department would not be able to expend its appropriation of \$1,987,000 for Problem Gambling from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2017 amount up to \$1,987,000.

#### **Gaming Revenues**

From FY 2014 to FY 2015, state gaming revenues grew 2.0% to \$88,424,800. Gaming revenues are expected to grow by 3.26% from FY 2015 to FY 2016 to a level of \$91,311,200. From FY 2016 to FY 2017, revenues are forecasted to grow by 2.0% to \$93,137,400. (See Table 1 for more information on projected state revenues and department allocations.)

#### **Operating Budget**

The budget includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

#### **Additional Operating Expenses**

The budget includes \$768,400 from the Arizona Benefits Fund in FY 2017 for additional operating expenses. The department would be required to report on any new administrative spending. This amount funds the following adjustments:

##### **Statewide Adjustments**

The budget includes a decrease of \$(32,000) from the Arizona Benefits Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Monies in this line item are used to align spending with the 9% of projected tribal contributions. The agency may use this additional appropriation for administrative cost of regulating gaming. In FY 2017, these resources will be allocated to the appropriate operating budget line items. (See footnote on additional operating expenses reporting.)

#### **Arizona Breeders' Award**

The budget includes \$200,000 from the General Fund in FY 2017 for the Arizona Breeders' Award. This amount funds the following adjustments:

##### **Restore Arizona Breeders' Award**

Laws 2016, Chapter 342 appropriates \$200,000 from the General Fund in FY 2017 to restore funding to the Arizona Breeders' Award. The Arizona Breeders' Award was last funded in FY 2015 through a \$250,000 General Fund appropriation to the Department of Racing.

Monies in this line item are deposited in the non-appropriated Arizona Breeders' Award Fund. The fund awards the breeder of every winning horse foaled in this state.

### **Casino Operations Certification**

The budget includes \$2,081,800 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2017 for Casino Operations Certification. These amounts fund the following adjustments:

#### **Statewide Adjustments**

The budget includes a decrease of \$(8,100) from the Tribal-State Compact Fund in FY 2017 for statewide adjustments.

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.

### **County Fairs Livestock and Agriculture Promotion**

The budget includes \$1,779,500 from the General Fund in FY 2017 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2016.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

### **Division of Racing**

The budget includes \$2,886,000 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2017 for operating costs previously included in the budget for the Department of Racing. These amounts fund the following adjustments:

#### **Statewide Adjustments**

The budget includes a decrease of \$(8,200) from the Racing Regulation Fund in FY 2017 for statewide adjustments.

The Division of Racing regulates the pari-mutuel horse and greyhound 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 Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission.

The commission is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona.

### **Problem Gambling**

The budget includes \$2,287,000 and 5 FTE Positions in FY 2017 for Problem Gambling. These amounts consist of:

	<u>FY 2017</u>
Arizona Benefits Fund	\$1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2016.

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state shall be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The budget includes \$1,987,000 for FY 2017 from the Arizona Benefits Fund. (See Table 1 for more information on projected state revenues and department allocations.)

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### **Other Issues**

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### **Additional Legislation**

#### **Elimination of Live Dog Racing**

Laws 2016, Chapter 246 prohibits live dog racing in Arizona effective January 1, 2017. Although Chapter 246 allows for dog racing until the end of 2016, the Arizona Racing Commission has granted approval for dog racing tracks to end live dog racing as early as July 2016.

#### **Elimination of Hardship Credit**

Laws 2016, Chapter 247 eliminates the hardship tax credit which is used to offset the amount of pari-mutuel tax owed by greyhound and horse racing tracks. Credits awarded prior to Chapter 247 may still be used by horse racing tracks to offset pari-mutuel tax in future years. Greyhound tracks will be unable to use previously accrued credits due to the elimination of live dog racing by Laws 2016, Chapter 246.

**Table 1**

**Tribal Gaming Distributions Pursuant to Proposition 202 <sup>1/</sup>**

<b>Recipient</b>	<b>Proposition 202 Formula</b>	<b>FY 2014 Actual <sup>1/</sup></b>	<b>FY 2015 Actual <sup>1/</sup></b>	<b>FY 2016 Projected <sup>2/</sup></b>	<b>FY 2017 Projected <sup>2/</sup></b>
State Government Distribution	88% of total	\$ 86,728,500	\$ 88,424,800	\$ 91,311,200 <sup>2/</sup>	\$ 93,137,400 <sup>2/</sup>
Local Government Distribution <sup>3/</sup>	12% of total	<u>11,826,600</u>	<u>12,057,900</u>	<u>12,451,500</u>	<u>12,700,600</u>
<b>Total</b>	<b>100% of total</b>	<b>\$ 98,555,100</b>	<b>\$100,482,700</b>	<b>\$ 103,762,700</b>	<b>\$ 105,838,000</b>
<b>Allocation of State Government's Share</b>					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 8,000,000	\$ 8,218,000 <sup>4/</sup>	\$ 8,382,400 <sup>4/</sup>
Department of Gaming Problem Gambling	2%	<u>1,734,600</u>	<u>1,768,500</u>	<u>1,826,200 <sup>5/</sup></u>	<u>1,862,800 <sup>5/</sup></u>
Subtotal-Department of Gaming		\$ 9,734,600	\$ 9,768,500	\$ 10,044,200	\$ 10,245,200
Instructional Improvement Fund (Department of Education)	56% of remainder	43,116,600	44,047,600	45,509,400	46,419,600
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	21,558,300	22,023,800	22,754,800	23,209,800
Arizona Wildlife Conservation Fund	8% of remainder	6,159,500	6,292,500	6,501,400	6,631,400
Tourism Fund	8% of remainder	<u>6,159,500</u>	<u>6,292,500</u>	<u>6,501,400</u>	<u>6,631,400</u>
<b>Total</b>		<b>\$ 86,728,500</b>	<b>\$ 88,424,900</b>	<b>\$ 91,311,200</b>	<b>\$ 93,137,400</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> The budget projects 3.26% growth in FY 2016 for tribal contributions to the Arizona Benefits Fund and 2.0% growth in FY 2017.

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

<sup>4/</sup> While the FY 2016 appropriation and FY 2017 appropriation include \$9,063,900, 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. This provision is expected to allow the department to expend \$8,218,000 for operating expenditures in FY 2016 and \$8,382,400 in FY 2017, as 9% of projected revenue is greater than \$8,000,000.

<sup>5/</sup> While the FY 2016 appropriation and FY 2017 appropriation include \$1,987,000, A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. This provision is expected to allow the department to only expend \$1,826,200 for problem gambling expenditures in FY 2016 and \$1,826,800 in FY 2017.