

BALLOT PROPOSITION #202
Indian Gaming Preservation and Self-Reliance Act

Fiscal Impact Summary

Proposition 202 allows an increase in the number of slot machines at Indian casinos. Tribes that choose to participate would share from 1% to 8% of their gaming revenue 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 estimate, therefore, represents a potential maximum impact, rather than a specific prediction of the ultimate outcome.

This proposition could possibly generate state and local government revenues of up to \$102 million from the Indian tribes for specific purposes.

	FISCAL YEAR		
	2003	2004	2005
STATE/LOCAL REVENUES			
Arizona Benefits Fund	\$-0-	Up to \$102 million	Up to \$102 million

FISCAL ANALYSIS

Description

Proposition 202 continues Indian gaming in Arizona. Participating tribes would share their gaming revenues with the state. It increases the maximum number of gaming devices in the state from 14,675 to 15,675 and permits inter-tribal transfers of gaming devices. Participating tribes would share from 1% to 8% of their gaming revenues (prior to operating expenses) with the state. The tribal revenue sharing monies would go toward designated uses, including education, trauma and emergency services, wildlife conservation, tourism, and gaming regulatory expenses. In addition, 12% of the tribal contributions would be distributed to Arizona cities, towns, and counties.

Estimated Impact

Proposition 202 allows an increase in the number of slot machines at Indian casinos. Participating tribes would share from 1% to 8% of their gaming revenue 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 estimate, therefore, represents a potential maximum impact, rather than a specific prediction of the ultimate outcome.

This proposition could possibly generate state and local government revenues of up to \$102 million from the Indian tribes for specific purposes.

This proposition would result in added administrative and regulatory costs for the Department of Gaming due to the increased number of gaming devices. The proposition allocates \$8 million, or 9%, of the revenues, to administrative and regulatory expenses.

The proponents of this proposition retained the Howard Consulting Group to estimate tribal revenue sharing under the proposition. Based on its assumptions, the firm estimates that this proposition would generate new revenues for the state and local governments of \$89 million in the first year.

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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 is based on assumptions about revenue per gaming device 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.

According to the Arizona Department of Gaming, Arizona tribes currently operate approximately 9,000 gaming devices, though 14,675 are authorized by the current Indian gaming compacts. Under this proposition, the number of slot machines in use could potentially increase from 9,000 to 15,675, nearly a 75% increase. The estimate includes 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.

If the maximum of 15,675 gaming devices permitted by this proposition generate an average of \$75,000 per device, net win would reach \$1.2 billion. At an average of \$125,000 per machine, total net win would reach \$2.0 billion.

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.

The tribal revenue sharing rates in this proposition are based on each tribe's net win. Tribes must contribute 1% of the first \$25 million of net win, 3% of the next \$50 million of net win, 6% of the next \$25 million of net win, and 8% of any additional net win. Therefore, a tribe with a net win of \$100 million would contribute \$3,250,000 to the state, for an effective revenue sharing rate of 3.25%. A tribe with a net win of \$300 million would pay \$19,250,000 to the state, for an effective revenue sharing rate of 6.4%. Based on information provided by Howard Consulting (which received full access to each tribe's gaming revenues), the average effective revenue sharing rate for all gaming tribes would be 5.2%.

At the low end of the maximum range, with net win for the state reaching \$1.2 billion and the average effective revenue sharing rate for all gaming tribes at 5.2%, this proposition could possibly generate \$61 million for the state in the first year. At the high end of the maximum range, with net win at \$2.0 billion and the average effective revenue sharing rate of 5.2%, the proposition would generate \$102 million.

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. In FY 2004, the proposition would generate new revenues ranging from \$61 million to \$102 million. Of these amounts, the state would keep 88%, and the local governments would receive 12%.

In constructing its estimate, Howard Consulting assumes that individuals are willing to spend up 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.

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. 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.

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Another gaming industry source 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 top end of our maximum range, in which we assume that the average gaming device produces revenue of \$125,000, results in total net win of \$2.0 billion. This conforms with the market saturation assumptions provided by 2 separate methods of estimating market saturation (\$2.0 billion and \$2.3 billion, respectively).

This proposition would result in added administrative and regulatory costs for the Department of Gaming due to the increased number of gaming devices. The proposition allocates \$8 million, or 9%, of the revenues, to administrative and regulatory expenses.

Local Government Impact

The proposition sets aside 12% of tribal contributions for distribution to Arizona cities, towns, and counties for public safety, mitigation of the negative impacts of gaming, and promotion of commerce and economic development. The local governments would receive an amount ranging from \$7 million to \$12 million in both FY 2004 and FY 2005.

7/18/02

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 (602-542-5491).
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