



THE CENTER FOR STATE AND LOCAL TAXATION

The Impact of Indian Gaming on State and Local Public Finance

Terri A. Sexton
Associate Director, CSLT, UCD
Professor of Economics, CSUS

Oct. 26, 2007



THE CENTER FOR STATE AND LOCAL TAXATION

Impacts on Government Expenditures

- reduced social service costs, namely public assistance
- increased local service costs such as law enforcement, fire protection, courts, health service
- increased infrastructure costs for roads, water, sewer, etc.



THE CENTER FOR STATE AND LOCAL TAXATION

Impacts on Government Revenues

- State income taxes
- State and local sales taxes
- Property taxes
- Hotel/lodging taxes
- Tobacco and liquor taxes
- Lottery sales
- Tribal revenue sharing



THE CENTER FOR STATE AND LOCAL TAXATION

Tribal Payments to State and Local Governments

- Payments to local governments for infrastructure, law enforcement costs, etc.
- Payments to state government to cover administrative and regulatory costs
- Revenue sharing with state governments in exchange for exclusivity



Arizona Tribal Payments

- Must cover state administrative and regulatory costs
- Exclusivity payments =
 - 1% of first \$25 million class III net win +
 - 3% of next \$50 million +
 - 6% of next \$25 million +
 - 8% of net win above \$100 million
 - (88% of these payments go to AZ State Benefits Fund and 12% to local governments)



California Tribal Payments

1999 Tribal-State Compacts (61)

- Contributions to the Revenue Sharing Trust Fund: annual license fees ranging from \$900 to \$4,350 per gaming device for devices above 350.
- Contributions to the Special Distribution Fund: percentage of net win from gaming devices equal to 0% on the first 200 devices, 7% on 201 to 500 devices, 10% on 500 to 1,000 devices, and 13% on more than 1,000 gaming devices.



California Tribal Payments

2003 Tribal-State Compacts (3)

- 5% of net win to state general fund
- No RSTF or SDF payments required

2004 Compacts and Amended 1999 Compacts

- some RSTF payments set as fixed amounts up to \$1.5 million per year
- payments to state general fund as fixed fees per device ranging from \$250 to \$25,000 or as percent of net win ranging from 10% to 25%.



THE CENTER FOR STATE AND LOCAL TAXATION

California Tribal Payments

2007 Compacts

- Fixed payments to RSTF of \$2 or \$3 million
- Payment to state General Fund: Percentage of net win on newly added gaming devices generally 15% of net win from first 3000 additional devices and 25% on additional devices above 3000.

Tribal Agreements with Local Governments



Connecticut Tribal Payments

- Payments to the state to cover regulatory and enforcement costs (approx. \$3 million/yr)
- 25% of slot machine revenues paid to state
- If either tribe's contribution falls below \$80 million in any year, the rate increases to 30% to guarantee a combined minimum of \$160 million per year.
- payments to local government in lieu of property taxes (one tribe)



THE CENTER FOR STATE AND LOCAL TAXATION

Michigan Tribal Payments

- Reimburse state for administrative, regulatory and enforcement costs
- 2% of Class III slot machine revenue to local government
- 8% of Class III slot machine revenue to the state for some tribes under newer compacts



THE CENTER FOR STATE AND LOCAL TAXATION

Minnesota Tribal Payments

- Tribes make payments to state to cover administrative and regulatory costs (a combined total of \$150,000)
- No tribal-state revenue sharing
- Minnesota Indian Gaming Association reports \$15.9 million paid to local governments as payments in lieu of taxes



THE CENTER FOR STATE AND LOCAL TAXATION

New Mexico Tribal Payments

- Reimburse state regulatory costs in amount of \$100,000 (2001) per tribe per year, increasing 3% per year
- 0.25% of net win to support programs to treat compulsive gamblers
- State revenue sharing =
 - 3% of 1st \$4 million of net win + 8% of rest if net win is less than \$12 million or
 - 8% of net win if net win is greater than or equal to \$12 million.



THE CENTER FOR STATE AND LOCAL TAXATION

New York Tribal Payments

- Reimburse state regulatory costs
- Exclusivity payments to the state ranging from 18 % of net revenue from slot machines in the first year of operation up to 25% in the seventh year and after.



Oregon Tribal Payments

- Tribes must pay their share of Oregon State Police costs
- Tribes must contribute either 5% or 6% of the gaming facility net income to a 'community benefit fund,' part of the proceeds of which go to local governments



THE CENTER FOR STATE AND LOCAL TAXATION

Washington Tribal Payments

- Must reimburse actual regulatory costs incurred by state gaming agency
- Share up to 2% of table net win and 0.5% of video lottery terminal (VLT) net win with local governments
- Contribute 0.13% of total net win to help reduce problem gambling
- Contribute 0.13% of net win from VLTs to organizations that help discourage tobacco use



Wisconsin Tribal Payments

- Reimburse state regulatory costs
- Share a percentage of gaming revenue with the state ranging from 1.75% to 8% depending on net win
- Beginning in 2007, a share of the above payment is allocated to the county
- Currently subject to legal dispute over constitutionality



THE CENTER FOR STATE AND LOCAL TAXATION

2006 Direct Payments to State and Local Governments

State	Revenue (millions)	Payments to State and Local Government (millions)	Payments as % of Revenue
California	\$7,714.8	\$308.5	4.0%
Connecticut	\$2,498.1	\$437.5	17.5%
Arizona	\$2,071.2	\$102.1	4.9%
Oklahoma	\$1,972.0	\$30.2	1.5%
Minnesota	\$1,507.0	\$16.1	1.1%
Washington	\$1,385.8	\$14.3	1.0%
Wisconsin	\$1,214.5	\$83.9	6.9%
New York	\$1,000.3	\$113.0	11.3%
Michigan	\$945.5	\$20.5	2.2%
New Mexico	\$755.3	\$54.1	7.2%
Oregon	\$578.5	\$13.6	2.4%

Source: Meister, Alan. 2007. *Casino City's Indian Gaming Industry Report*



THE CENTER FOR STATE AND LOCAL TAXATION

2006 Revenue Sharing Payments to State Governments

State	Revenue (millions)	Tribal-State Revenue Sharing Payments (millions)	Payments as % of Revenue
California	\$7,714.8	\$270.7	3.5%
Connecticut	\$2,498.1	\$433.6	17.4%
Arizona	\$2,071.2	\$81.9	4.0%
Oklahoma	\$1,972.0	\$29.0	1.5%
Minnesota	\$1,507.0	\$0.0	0.0%
Washington	\$1,385.8	\$0.0	0.0%
Wisconsin	\$1,214.5	\$75.2	6.2%
New York	\$1,000.3	\$97.2	9.7%
Michigan	\$945.5	\$2.5	0.3%
New Mexico	\$755.3	\$52.7	7.0%
Oregon	\$578.5	\$0.0	0.0%

Source: Meister, Alan. 2007. *Casino City's Indian Gaming Industry Report*



THE CENTER FOR STATE AND LOCAL TAXATION

Commercial Gambling Taxes 2006

State	Total Taxes (millions)	Adjusted Gross Revenues (billions)	Effective Tax Rate
Nevada	\$1,002	\$12.19	8.2%
Illinois	\$706	\$1.87	37.8%
Indiana	\$803	\$2.48	32.4%
New Jersey	\$413	\$4.81	8.6%
Missouri	\$422	\$1.57	26.9%
Louisiana	\$394	\$1.84	21.4%
Mississippi	\$274	\$2.24	12.2%
Iowa	\$162	\$0.76	21.3%

Source: Indiana Gaming Commission. *Annual Report 2006*



Conclusions

The impacts of Indian gaming on state and local finance vary according to:

- Location, especially proximity to urban area
- Size of facility and amenities available
- Number and location of competing facilities
- State and local tax structure
- Revenue sharing arrangements



THE CENTER FOR STATE AND LOCAL TAXATION

Areas Needing Further Research

- Tribal use of gaming revenues
- Displacement / Substitution
- Recapture
- Impact on tourism